

# ACCOUNTANCY

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## PROFESSIONAL NOTES

### The King's Birthday Honours

Sir Alan Rae Smith, O.B.E., F.C.A., Financial Adviser to the Ministry of Transport, becomes a Knight Commander of the Order of the British Empire. The honour of C.B.E. is conferred on Mr. T. G. Lund, Secretary of the Law Society, and on Mr. F. Bower, Chairman of the Finance and Taxation Committee of the Association of British Chambers of Commerce. We offer our congratulations to them, and to the following members of the Society of Incorporated Accountants who receive the O.B.E.: Mr. A. B. Griffiths, F.S.A.A., City Treasurer of Sheffield, and a member of the Council of the Society; Mr. F. R. Limpenny, A.S.A.A., who is resident in the Argentine; and Mr. L. O. Varrall, A.S.A.A., Assistant Accountant General, Ministry of Labour.

### The Companies Act, 1948

The Bill consolidating company law received the Royal Assent during June, and comes into force on July 1. In continuation of our series of articles on the new company law we publish in this issue (pages 153 to 155) an article drawing attention to the main points that need to be watched by accountants in the early stages of operation of the Act. On page 167 appears a review of a most informative and useful booklet on the new company law issued by the Institute of Chartered Accountants. It is hardly possible to do justice to this booklet without complete reproduction; it gives the opinion of eminent counsel on doubtful issues submitted to them, as well as the

recommendations of the Institute on these and other issues. From such a wealth of useful advice to the profession we select the form of auditors' report suggested for general use where no group accounts are submitted; the form is naturally subject to any qualifications the auditors may find it necessary to make.

### REPORT OF THE AUDITORS TO THE MEMBERS OF X., LTD.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company so far as appears from our examination of those books and *proper returns adequate for the purposes of our audit have been received from branches not visited by us* (A). We have examined the above balance sheet and annexed profit and loss account, which are in agreement with the books of account and *returns* (A). In our opinion and to the best of our information and according to the explanations given us the said accounts (B) give the information required by the Companies Act, 1948, in the manner so required and the balance sheet gives a true and fair view of the state of the company's affairs as at..... and the profit and loss account gives a true and fair view of the profit (loss) for the year ended on that date.

### NOTES

- (A) Delete where inapplicable.  
(B) Where the accounts are not self-contained because material information (necessary for their proper understanding or drawing attention to some feature which

affects the validity of the accounts) is contained in paragraphs of the directors' report or in other documents annexed to the accounts (see clauses 149 (7) and 163 of the consolidating Bill or Sections 13 (8) and 25 of the Companies Act, 1947), reference to the specific documents to be read as part of the accounts should be introduced here in appropriate terms. These will vary according to the circumstances, but should clearly identify the source to which the reference is made. Where matters relevant to the accounts are disclosed in the directors' report, it is desirable for that report to be so set out as to ensure identification.

### Qualifications of Auditors under the Companies Act

The following bodies of accountants established in the United Kingdom have been recognised by the Board of Trade for the purposes of Section 23 (1) of the Companies Act, 1947:

The Institute of Chartered Accountants in England and Wales.

The Society of Incorporated Accountants and Auditors.

The Association of Certified and Corporate Accountants.

The Society of Accountants in Edinburgh.

The Institute of Accountants and Actuaries in Glasgow.

The Society of Accountants in Aberdeen.

The Institute of Chartered Accountants in Ireland.

A member of the above bodies is accordingly qualified, so far as the above provision is concerned, for appointment as auditor of a company. In addition, persons may be authorised by the Board of Trade to be so appointed either:

- (a) as having similar qualifications obtained outside the United Kingdom, or
- (b) as having obtained adequate knowledge and experience in the course of his employment by a member of one of the above bodies, or
- (c) as having before August 6, 1947, practised in Great Britain as an accountant.

Forms of application for authorisation may be obtained from the Assistant Secretary, Board of Trade, Insurance and Companies Department, Romney House East, Tufton Street, London, S.W.1.

### Compensation for Land Development

Development rights of land pass to the State with the coming into force of the Town and Country Planning Act, 1947, on July 1. After that date a landowner must obtain permission from the planning authority before developing his land and will be liable to a "development charge." Enlarging a house by up to 10 per cent. or 1,750 cubic feet, whichever is the greater, will be free of the charge, but the erection of a garage will count as part of the 10 per cent. Apart from dwelling accommodation, a farmer will be able to put up buildings without incurring the charge. The Central Land Board will levy the development charge on the increase in the value of the land resulting from a permitted development. Potential buyers of land are warned that they may be liable to meet this charge; after July 1 the purchase price of land plus the probable charge should not exceed the cost of the land if the Act had not been passed.

Landowners should claim on the Central Land Board for the depreciation in the value of their property resulting from the loss of potential development value under the Act. Claims have to be made by March 31, 1949, except that in exceptional cir-

cumstances the Board may extend the date up to June 30, 1949. It should be noted that under the Act no compensation is payable if the development value is assessed at £20 or less per acre, or one-tenth or less of the existing use value of the land. The Board will assess all claims, and in the event of dispute there is the right of appeal to an arbitrator. In about four years' time a scheme is to be made by the Treasury and agreed by Parliament for the division of the global sum of £300,000,000 among claimants; the sum will be spent in proportion to their assessed claims. Assessments will be made in negotiable Government stocks, which will carry interest in cash from July 1 next.

A claim for submission to the Central Land Board in respect of depreciation of land values (Form S.1) and forms of application for the fixing of charges for development value (Form D.1) are now available. Two explanatory pamphlets, one on the payments for depreciation of land values (S.1A) and the other on the development charge (D.1A) are also obtainable. The forms and pamphlets may be obtained from the offices of all County, Borough, Urban and Rural District Councils.

### Placings and Prospectuses

In future when a stockbroker makes a "placing," the offer he sends to his clients will, save in exceptional circumstances, rank as a prospectus for purposes of the new Companies Act. Accordingly, the papers forming the "prospectus" will have to be filed with the Registrar of Companies and will have to meet the provisions of the Act regarding the form and contents of prospectuses. The Act provides that an offer of securities is not to be treated as made to the public, and the documents will not, therefore, be a prospectus,

"if it can properly be regarded, in all the circumstances, as not being calculated to result, directly or indirectly, in the shares or debentures becoming available for subscription or purchase by persons other than those receiving the offer or indication, or otherwise as being a domestic concern of the persons making and receiving it."

The Council of the Stock Exchange has been legally advised that this exception should be regarded as of extremely limited application.

In certain circumstances, though a prospectus must be filed and must meet the other statutory requirements, it will not have to comply with the fourth schedule to the Act. These circumstances are where an offer to take up securities is made exclusively to persons who are already holders of securities in the company; where there is a further issue of securities uniform with existing quoted securities; and where a prescribed Stock Exchange issues an exempting certificate on the grounds that the size and other features of the issue make compliance with the fourth schedule unduly burdensome.

### Stock Exchange Commission

The Stock Exchange Council is meeting opposition, from inside and outside the Exchange, to its decision that after the end of this year commissions should



no longer be shared with solicitors, accountants, and some other former agents. A circular has been issued to all members by twenty-six firms of stockbrokers (representing over 180 members of the Stock Exchange) seeking support for a petition to the Council for the rescinding of the new rule, which was commented upon in our issue of January last (page 2). Signatories are asked to declare that the new rule is "contrary to the best interests of the public and of the Stock Exchange." The argument is put forward in the circular that solicitors and accountants will resent their being denied a commission rebate allowed to banks. It is suggested that this different treatment results from the fact that the banks can retaliate, while the legal and accounting professions cannot. It is argued further that since solicitors and accountants will have to make additional charges to their clients for investment advice, the cost of investments will rise, and the volume of Stock Exchange business will thus be reduced. It is pointed out that agents are responsible for the introduction of business which otherwise would not reach the Stock Exchange, and it is claimed that the net result of the new rule will be to the detriment of brokers themselves.

It will be interesting to see how far other members of the Stock Exchange share the opinions of the brokers issuing this circular. It is understandable that the Stock Exchange Council desires to raise the professional status of stockbrokers by stopping the sharing of commissions with other professions. The weakest point in its position is the continuance of banks as agents, more especially since, if business which previously passed from solicitors and accountants to stockbrokers is in future placed with a bank, the bank will still obtain a share of commission—in fact, a larger share than that which the solicitors and accountants formerly collected. Some solicitors have gone so far as to suggest setting up a stock exchange of their own. The proposal appears to us quite impracticable. The Stock Exchange depends upon a very large number of transactions indeed, and, important though the amount of investment business flowing from solicitors may be, it would be quite insufficient to support an independent market. We adhere to the opinion which we expressed last January, that on the long and broad view, the new rule of the Stock Exchange will not be to the detriment of the accountancy profession, though the immediate repercussions on some practising accountants will be adverse.

### The Institute's Presidential Elections

Mr. B. H. Binder, F.C.A., has been elected President of the Institute of Chartered Accountants. Mr. Binder is senior partner in the firm of Binder, Hamlyn and Co., Chartered Accountants, of London, which was founded by him in 1918. He became a member of the Council of the Institute in 1932.

Sir Russell Kettle, F.C.A., senior partner in the firm of Deloitte, Plender, Griffiths & Co., was elected Vice-President of the Institute, of which he has been a Council member since 1940. Sir Russell became a

partner of his firm in 1919, and in 1946 succeeded Lord Plender as senior partner.

### The Frustration of Local Initiative

The theme of Mr. James Lythgoe, C.B.E., in his Presidential Address to the Institute of Municipal Treasurers, was the increasing dependence of local authority councils upon Whitehall. Some functions, particularly those connected with the social services, have been removed from the local authorities; and for others larger Government grants have become necessary, with consequential central control. The sources of local finance, already restricted by de-rating, will be further diminished by the artificial valuation of houses under the Local Government Act of this year. Trading revenues, which might have provided alternatives to rates, are lost to the authorities. Thus, the proportion of local expenditure spent at the discretion of the local councils is now small, and their money-raising ability is low. Mr. Lythgoe suggested that detailed Government control should be relaxed, leaving the local bodies to administer services within a policy laid down nationally and subject to broad financial control. Further, Government grants should not be assessed upon actual expenditure—reducing local efficiency and economy—but upon standard costs adjusted by the amount of the particular services provided. In addition, new sources of revenue should be found. The rating of site values was receiving attention, but other sources which Mr. Lythgoe thought worth examination were the local assessment of entertainment taxes, and a sales tax on the non-industrial use of gas and electricity.

### Defence Bonds and Income Tax

Accountants are finding difficulties in preparing income-tax returns for their clients who hold 3 per cent. and 2½ per cent. Defence Bonds, since the Post Office Savings Bank, in making interest payments, does not issue income-tax vouchers. The difficulties are increased by differences in the dates of issue of various classes of bonds, by the popularity of these bonds among small investors, and by the fact that the typical holding covers a number of different issues. A large part of the time of the income-tax staffs of some firms of accountants is now devoted to calculations of interest on the bonds, and to answering the numerous inquiries of clients on such questions as conversion or non-conversion and due dates of interest. A firm of accountants who are particularly hard-pressed in this way inform us that they have written to the Post Office Savings Bank suggesting that informative vouchers should be issued with interest payments, particularly since "it seems almost a tacit invitation to the public to omit the income on Defence Bonds from their returns when they have no statement of the amount paid, even though they may be thoroughly desirous of disclosing every item." After the war of 1914-18, vouchers giving the necessary information were eventually issued with interest payments on War Loan holdings, and there seems no adequate reason why this procedure should not be followed with Defence Bonds.

# ACCOUNTANCY

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## REPLACEMENT COSTS

As after the war of 1914-18, there has recently been much discussion on the problem of depreciation. The emphatic rise in plant and building costs has led to demands that accountants should no longer depreciate on original costs, but should do so on replacement costs. Only thus, it is argued, can an undue inflation of book profits be avoided. And only thus, the argument proceeds, can a sufficient fund be built up to re-equip business with the rise in the price of fixed assets.

Some of the popular agitation for the replacement costs basis is misguided, especially when it urges that depreciation on original costs does not provide a sum for replacement of fixed assets. Whatever the depreciation procedure, so long as it remains relevant only to the financial accounting of the business it has no effect upon the gross revenue, and it is those revenues which determine the funds that are available, whether for re-equipping the business, for distributing to shareholders, or for any other purpose. In other words, if depreciation is "understated," the net profits will be that much larger; if depreciation is "overstated," the net profits will be that much smaller. The sum of allocation to depreciation quotas and net profits will be the same in either event. It is true that if the sum put down for depreciation is allowed to influence selling prices, then this effect on costings, as distinct from that on the financial accounts, will raise prices and therefore gross receipts, and, in this sense, will provide a larger fund for re-equipping the business. It is noteworthy, however, that the advocates of the replacement costs basis of depreciation do not usually argue for a rise in selling prices, which would still further propel the inflationary movement.

Accountants have not been oblivious of the rising prices of fixed assets. There has been a growing tendency to provide out of profits sums intended to meet the higher costs of replacement. Even if such provisions are not deliberately and consciously made, the present fashion of dividend limitation produces the same effect.

What, therefore, the issue really amounts to is whether the depreciation charge before striking profits should be calculated on replacement costs rather than original costs, or whether the higher cost of replacement should be allowed for by a provision out of profits. Though important, this question is much less important than it seems to be to the critics of the accounting profession.

There are some difficulties in the first of the suggested courses which cannot be overlooked by the accountant even though they are not uppermost in the mind of the financial commentator. Firstly, once he departs from recorded known figures the accountant is acting not *qua* accountant but *qua* financial adviser. When he is acting in the second capacity he may suggest an appropriate provision for higher costs of re-equipping, but because he would then be in the realm of estimate and conjecture he would be loth to produce a comparable effect, when acting in the former capacity, by increasing the depreciation charge by a corresponding amount. Secondly, if the depreciation charge is increased because of higher prices, it follows that the balance-sheet values of the fixed assets should be written up for the same reason; in other words, the capitalisation of a company must vary according to the price of replacing plant and buildings. Any accountant will readily see that this involves difficulties which may well be out of proportion to the advantages obtained. Thirdly, consistency is a requisite of good accounting, and he who increases depreciation charges at times of rising prices must be prepared to reduce them when prices fall. Fourthly, whatever is done by the accounting profession, the Inland Revenue will clearly remain adamant on the original cost basis for depreciation. A question in the House of Commons suggesting that they should allow depreciation on replacement costs was rejected unreservedly only a few weeks ago.

Considerations such as those we have outlined led the Committee on Accounting Procedure of the American Institute of Accountants to reject the replacement costs basis in a recent research bulletin. It must be pointed out, however, that advocacy of the "last-in first-out" method of stock valuations in America—which has resulted in that method being admitted for tax purposes and now being of quite general application—is formally an argument in favour of the replacement cost basis for fixed assets. This is because, as is explained by Mr. C. A. Ellis in the articles which we publish in this and our next issues, the "Lifo" basis assesses the charge for materials approximately on current prices, instead of those obtaining at some time in the past, and it is a logical extension of this approach to use replacement (or, at least, current costs) as the basis of depreciation of fixed assets.

The moral of the recent discussion appears to be, so far as immediate action is concerned, that business concerns which are not making provisions out of profits for meeting higher plant and building costs should do so; the accountant, in advising his client on policy, should urge that this be done, even at the expense of shareholders where lower distributions would result. So far as more long-term action is concerned, a change in accounting technique in regard to depreciation may possibly prove necessary, but only after there has been more consideration of the serious difficulties involved, some of which have been indicated in this article. But, again, let it be emphasised that not accounting technique but pricing policy determines the revenues of a business, and, therefore, its capacity to survive and prosper.



# Companies Act, 1948—X.

## Points to Note

So much of the work done by accountants these days concerns the Company Law and practice in relation to accounts and audits is so intimately affected by the changes that have recently been made in the law, that it is not at all easy to summarise those points of the new legislation which should be particularly noted by members of the profession. But on the coming into force on July 1 of the Companies Act, 1948 (for the provisions of the 1947 Act earlier brought into force reference may be made to ACCOUNTANCY for December, 1947, page 272, and for April, 1948, page 72), it is opportune to draw attention to the main points likely to be encountered by the accountant sooner rather than later.

The reader is referred to the first article in this series, published in ACCOUNTANCY for September, 1947 (pages 199-201), for a complete summary of the Companies Act, 1947.\* The present article amounts to a condensation of many of the relevant provisions, which are now consolidated with those of the Act of 1929 in the Companies Act, 1948. It is written primarily as a guide to those parts of the Act that are most important from the point of view of the busy accountant. It is naturally not intended to replace a detailed study of the Act, nor does it purport to cover all points that might arise, even in the early stages of the operation of the Act.

### 1. FORMATION OF COMPANY

On forming a company for a client, care must be taken that there is nothing in the Articles which is inconsistent with the provisions of the Act. To some extent this matter will, of course, be attended to by the law stationers and registration agents, who will doubtless

\* An excellent booklet summarising the main provisions of the 1947 Act in tabular form has been published for the guidance of Chamber of Commerce members by the Association of British Chambers of Commerce, 14, Queen Anne's Gate, London, S.W.1, under the title "Companies Act, 1947—Index to the Main Provisions of the Act."

This article is the tenth in a series on the new company law. The first, a general article on the Companies Act, 1947, appeared in our issue of September, 1947, and subsequent articles have dealt with the following special aspects:—

- II. "Company Balance Sheet and Profit and Loss Account, etc.", by F. Sewell Bray, F.C.A., F.S.A.A., and H. Basil Sheasby, F.C.A., F.S.A.A. (October).
- III. "The Exempt Private Company," by E. Westby-Nunn, B.A., LL.B., Barrister-at-Law (December).
- IV. "Disclosure of Payments to Directors," by J. H. M. Clark, A.C.A. (January).
- V. "Meetings," by E. Westby-Nunn, B.A., LL.B., Barrister-at-Law (February).
- VI. "Prospectuses," by E. Westby-Nunn, B.A., LL.B., Barrister-at-Law (March).
- VII. "Auditors," by W. J. Back, F.S.A.A. (April).
- VIII. "Articles of Association and Annual Returns," by E. Westby-Nunn, B.A., LL.B., Barrister-at-Law (May).
- IX. "Bookkeeping and Accounts," by W. J. Back, F.S.A.A. (June).

The series will be continued in future months, and we hope to cover all important topics of interest to readers.

obtain counsel's opinion before they produce new standard forms of Memorandum and Articles.

- (a) Notice of the situation of the registered office has to be given within *fourteen* days of incorporation. (Section 107)
- (b) Within the same period of *fourteen* days from the appointment of the first directors or secretary, particulars as to the persons appointed must be registered. (Section 200 (4))
- (c) Where a prospectus has been issued generally, no allotment may be made until the beginning of the third day after that on which the prospectus is issued. (Section 50)
- (d) Where no prospectus is issued, in the case of a public company, a statement in lieu of prospectus must be filed containing the new provisions detailed in the Fifth Schedule. (Section 48)

### 2. REGISTERS

The registers required to be kept by a company are more numerous than those which have been necessary hitherto.

- (a) The Register of Members need no longer contain a copy of the annual return, or state the occupations of the members. (Section 110)
- (b) It need not be kept at the registered office provided that notice of the place at which it is kept is given to the Registrar. (Section 110)
- (c) The register of directors must contain particulars of secretaries as well as of directors. (Section 200)
- (d) In the case of companies to which Section 185 applies, the date of a director's birth must be shown in the register of directors. (Section 200 (2))
- (e) An additional register of directors' shareholdings must be kept, and must be produced at the annual general meeting. (Section 195)

### 3. MANAGEMENT

In attending to the technical management of the company the following points should be borne in mind.

- (a) Only business letters, notices and other official publications of the company need contain the company's name. (Section 108)
- (b) The name need no longer be included in advertisements. (Section 108)
- (c) Shares need no longer be numbered, provided that all the issued shares of the same class are fully paid up and all rank *pari passu* for all purposes. (Section 74)
- (d) Premiums received on an issue of shares must be dealt with in the manner prescribed by Section 56.

### 4. DIRECTORS

- (a) Except in the case of a private company, two or more directors cannot be appointed at a meeting by the same resolution, unless this method is first approved of by a resolution to which no one dissents. (Section 183)
- (b) Notwithstanding anything to the contrary in the Articles, directors may be removed by ordinary resolution. (Section 184 (1))
- (c) Of such ordinary resolution, *special notice* (see Section 142) has to be given. (Section 184 (2))
- (d) There are new provisions for the retirement of directors over seventy years of age. (Sections 185 and 186)
- (e) The payment of tax-free remuneration to directors is prohibited. (Section 189)

- (f) Certain kinds of loans to directors of the company or of its holding company are prohibited. (Section 190)
- (g) Compensation for loss of office must be approved by the company. (Section 191)

#### 5. MEETINGS

Meetings will have to be handled with care until familiarity with the new law on the subject is achieved.

- (a) The notice, by which the annual general meeting is summoned, must state that it is the annual general meeting. (Section 131)
- (b) No such meeting need be held in the year in which the company is incorporated or in the following year, provided that one is held within eighteen months of incorporation. (Section 131)
- (c) Twenty-one days' notice is necessary in the case of the annual general meeting or a meeting at which a special resolution is to be passed, even though a shorter period appears to be prescribed by the Articles. (Sections 133, 141 (2))
- (d) Fourteen days' notice will suffice in the case of other meetings, unless a longer period be prescribed by the Articles. (Section 133)
- (e) There is now a statutory right to vote by proxy, and the notice of a meeting must call attention to this right. (Section 136)
- (f) The requirements for demanding a poll are laid down and may in some cases override the provisions of existing Articles. (Section 137)
- (g) Members have the right to require resolutions to be put to the *annual general meeting* in certain circumstances, or to have written statements circulated among the members. (Section 140)

#### 6. AUDITORS

- (a) The auditor must be qualified in a manner prescribed. (Section 161)
- (b) He holds office until the conclusion of the next annual general meeting. (Section 159)
- (c) If it is proposed to re-appoint the retiring auditor, it is no longer necessary to pass a specific resolution for his re-appointment, for the re-appointment is automatic unless he is disqualified, he has given notice that he is not willing to be re-appointed, or a resolution is passed either appointing someone else in his place, or to the effect that he shall not be re-appointed. (Section 159)
- (d) Special notice (*see* Section 142) is necessary if either of these resolutions is to be passed. (Section 160)
- (e) Where such notice has been given, the company may be required to circularise representations by the retiring auditor. (Section 160)
- (f) The scope of the auditors' report is extended. (Section 162 (1) and Ninth Schedule)
- (g) Auditors are entitled to receive notices of, to attend, and to speak at, any general meeting. (Section 162 (4))

#### 7. ANNUAL RETURN

- (a) The annual return must be in the form prescribed, and must be completed within *forty-two* days after the annual general meeting. (Sections 124-126 and Sixth Schedule)
- (b) Private companies must file statutory accounts with the annual return unless they are "exempt private companies." (Section 129 and Seventh Schedule)
- (c) A person who is a partner of or in the employment of an officer or servant of the company may not be the auditor of a private company unless it is "exempt." (Section 161)

#### 8. ACCOUNTS

- (a) Books of account must give a true and fair view of the company's affairs and explain its transactions. (Section 147 (2))
- (b) If books are kept outside Great Britain, accounts and returns must be received at least every six months. (Section 147 (3))
- (c) The balance sheet and profit and loss account must give a true and fair view of the state of affairs of the company and of its profit or loss respectively. (Section 149 (1))
- (d) The contents of the balance sheet and profit and loss account are prescribed in considerable detail, with special provisions for holding and subsidiary companies. There are exceptions for banking and discount companies, assurance companies, and other classes to be prescribed by the Board of Trade. The Board may also modify these requirements to adapt them to the circumstances of an individual company. (Section 149 (2) (3) (4) and Eighth Schedule)
- (e) A holding company must (subject to certain exceptions) present group accounts. (Sections 150-152)
- (f) If possible the financial year of each subsidiary is to coincide with that of the holding company. (Section 153)
- (g) A company is a subsidiary of any company which either is a member of it and controls the composition of its board of directors, or holds more than half in nominal value of its equity share capital. A sub-subsidiary is deemed a subsidiary. (Section 154)

#### 9. CAPITAL

- (a) Alterations of capital are not materially affected by the Act; but where a variation of shareholders' rights is involved and the memorandum or articles require such variation to have the assent of a certain percentage of the shareholders concerned, application to the court for relief against such alteration may be made within *twenty-one* days of the date on which the requisite consent is given. (Section 72 (2))
- (b) Additional protection to minorities is given. (Section 210)

#### 10. ALTERATION OF OBJECTS

- (a) An alteration of the objects of a company may now be affected without the sanction of the court, though objectors may apply to the court to have the proposed alteration forbidden. (Section 5)
- (b) In much the same way, anything in the Memorandum, which could have been in the Articles, may be altered without the sanction of the court, unless application is made to the court to have the proposed alteration forbidden. (Section 23)

#### 11. CHARGES ON ASSETS

- (a) The charges on a company's assets, which have to be registered with the Registrar of Companies, do not now include a charge for any rent or periodical sum issuing out of land. (Section 95 (2))
- (b) It is now possible to register also notice that *part* of the property or undertaking charged has been released or has ceased to form part of the company's property or undertaking, or notice that the debt, for which the charge has been given, has been *partly* paid or satisfied. (Section 100)

#### 12. RECEIVERS

- (a) Receivers or managers, appointed out of court, may apply to the court for directions. (Section 369 (1))
- (b) They are personally liable on any contracts made



by them in the performance of their functions, unless the contract otherwise provides, though, in respect of such liability, the receiver or manager is given a right of indemnity. (Section 369)

- (c) Where a receiver or manager of the whole or substantially the whole of a company's property is appointed on behalf of debenture-holders secured by a floating charge, notices have to be given and a statement of affairs provided and filed in the manner prescribed. (Sections 372 and 373)

### 13. LIQUIDATORS

Liquidators of companies have a number of new points to watch, particularly in the case of a voluntary liquidation.

- (a) A declaration of solvency must now be made within the five weeks immediately preceding the date of the passing of the winding-up resolution and must be delivered to the Registrar of Companies before that date. (Section 283)
- (b) It must also embody a statement of the company's assets and liabilities. (Section 283)
- (c) If the liquidator in a members' voluntary winding up is at any time of the opinion that the company will not be able to pay its debts in full within the period stated in the declaration of solvency, he must forthwith summon a meeting of creditors and lay before the meeting a statement of assets and liabilities. (Section 288)
- (d) In determining what are preferential debts, careful attention must be paid to Section 319. Wages of workmen have been brought into line with those of clerks or servants. In both cases, in order to enjoy preference, the wages must have been earned during the four months before the relevant date, and in both cases the maximum sum, which can enjoy preference, has been increased to £200. (Section 319)

- (e) There are also new and somewhat complicated provisions with respect to accrued holiday remuneration. (Section 319)
- (f) A fraudulent preference made within six months before the commencement of the winding up may now be avoided. (Section 320)
- (g) Floating charges, created within the past twelve months, may be rendered void. (Section 322)

### 14. IMMEDIATE STEPS

In conclusion, it may be of assistance to accountants if a programme of *immediate action* to be taken after July 1 is suggested:

- (a) Ensure that particulars as to the secretary are registered within fourteen days. (Section 200)
- (b) Ascertain to what extent the Articles require amendment in order to bring them into line with the Act. (*passim*)
- (c) Ascertain whether or not the company, if it be a private company, is an "exempt private company" (Section 129 and Seventh Schedule). If it is not, consider whether or not auditors are qualified to act. (Section 161)
- (d) Open a register of directors' shareholdings. (Section 195)
- (e) Ascertain whether directors are liable to retirement at the age of seventy. (Section 185)
- (f) If they are, ascertain dates on which they were born, and insert them in the register of directors and secretaries. (Section 200)
- (g) Ascertain whether payment of directors' remuneration is affected by Section 189, or any loans to directors by Section 190.
- (h) Ascertain whether it is still necessary to have shares numbered, and if not, take steps to do away with numbers and adjust register of members. (Section 74)

## Stock Values and Financial Results—I

By CECIL A. ELLIS, A.S.A.A. (Montreal, Canada)

The subject of the values to be placed upon inventories (stock) and methods to be used when pricing out materials issued from stores for manufacturing and other purposes, became prominent as a result of certain provisions of the Revenue Act (1939) in the United States of America. These provisions have caused much discussion in the U.S.A. and elsewhere among industrialists and accountants.

Previously to 1939, consistent observance of the overriding rule that inventories should always be valued at "the lower of cost or market" was considered sufficient to protect business men, investors and the general public against the ill consequences of anticipating inventory profits. That rule still prevails in a general sense outside the U.S.A. for the purposes of determining operating results, and assessing income taxes thereon.

### Procedure in the U.S.A.

The Revenue Act of 1939, Section 219, extended to all taxpayers in the U.S.A. a right that had previously been confined to a few specified industries—to elect to adopt the *last in first out (Lifo)* method of valuing inventories for income-tax purposes. It commenced to apply for the first taxable year following December 31, 1938. The Act did not disturb the right to continue to use the *average price* method, or the *first in first out* method, but it contained no provisions enabling application of the *base stock* method (to be discussed herein) for taxation purposes.

Section 219 required that whenever a taxpayer elects

to adopt *Lifo* for tax purposes, the closing inventory for the year immediately preceding such adoption must be valued at cost. Once the *Lifo* method is adopted, it cannot be changed for some other method without special authority from the Commissioner of Internal Revenue.

It would seem that by the aforesaid concessions, the U.S. taxation authorities officially took notice of certain tendencies of *Fifo*, which are shared to a lesser degree by the *average price* method. Those tendencies are to inflate manufacturing and operating profits when market prices for materials are high, and to understate such profits when market prices are low. The recognised purpose of *Lifo* was to counteract those tendencies; to "iron out" the "peaks" and "valleys" of profits which the two methods just mentioned aggravate, and to guide business profits more into line than otherwise with the realities of business conditions.

### Procedure outside the U.S.A.

The latest Canadian Income Tax Bill merely provides that for purposes of income tax, inventories must be valued at "the lower of cost or market prices, or, in such other manner as may be determined by regulation." Nevertheless, taxpayers in Canada are required when submitting their tax returns, to name the inventory basis they have used in determining their profits as reported. Upon receiving such information, the taxation authorities apply their own regulations; and if necessary they adjust the reported inventory values.

## "MODERN MANUFACTURING COMPANY"

EXHIBIT "A"

## STORES CONTROL RECORDS

Showing pricing out of materials under each of four different methods

(000 omitted) 1947				AVERAGE PRICE METHOD						"FIRST IN FIRST OUT"					
RECEIVED				ISSUED		BALANCE				ISSUED		BALANCE			
						lbs.	c.	\$				lbs.	c.	\$	
Opening Balance						2000	16	320(A)				2000	16	320(A)	
Quarter	lbs.	Unit price c.	\$	lbs.	Unit price c.	\$				lbs.	Unit price c.	\$			
1st ...	500	16	80	400	16	64	2100	16	336	400	16	64	2100		336
2nd ...	600	14	84	300	15.5	46.5	2400	15.5	373.5	300	16	48	2400		372
3rd ...	500	11	55	200	14.8	29.6	2700	14.8	398.9	200	16	32	2700		395
4th ...	800	10	80	1000	13.7	137	2500	12.7	341.9	1000	16	160	2500		315
	2400		299	1900		277.1				1900		304			
1948															
1st ...	700	9	63	500	12.7	63.5	2700	12.7	341.4	500	16	80	2700		298
2nd ...	500	8	40	400	11.9	47.6	2800	11.9	333.8	100	16	16	2800		280
										300	14	42			
3rd ...	600	7	42	800	11.1	88.8	2600	11	267	300	14	42	2600		225
4th ...	800	5	40	600	9.7	58.2	2800	9.6	268.8	500	11	55			
	2600		185	2300		258.1				600	10	60	2800		205
										2300		295			
1949															
1st ...	700	5	35	700	8.7	60.9	2800	8.7	242.9	200	10	20	2800		175
2nd ...	500	4	20	700	8	56	2600	8	206.9	500	9	45			
										200	9	18	2600		137
3rd ...	600	4	24	600	7.2	43.2	2600	7.2	187.7	500	8	40			
4th ...	800	3	24	700	6.2	43.2	2700	6.2	168.5	600	7	42	2600		119
	2600		103	2700		203.3				700	5	35	2700		108
										2700		200			
1950															
1st ...	800	4	32	700	5.7	39.9	2800	5.7	160.6	700	5	35	2800		105
2nd ...	1000	5	50	800	5.5	44	3000	5.5	166.6	100	5	5	3000		122
										700	4	28			
3rd ...	700	7	49	600	5.8	34.8	3100	5.8	180.8	400	4	16	3100		149
4th ...	1200	9	108	1400	6.7	93.8	2900	6.7	195.0	200	3	6			
	3700		239	3500		212.5				600	3	18			
										800	4	32	2900		207
										3500		140			
1951															
1st ...	1000	11	110	1100	7.8	85.8	2800	7.8	219.2	1000	5	50			
2nd ...	800	13	104	800	9	72	2800	9	251.2	100	7	7	2800		260
										600	7	42			
3rd ...	700	14	98	800	10	80	2700	10	269.2	200	9	18	2800		304
4th ...	1200	16	192	1400	11.8	165.2	2500	11.8	296	800	9	72	2700		330
	3700		504	4100		403				200	9	18			
										1000	11	110			
										200	13	26	2500		368
										4100		343			

(A) Assumed cost value below "market" value.

(000 omitted)				"LAST IN FIRST OUT"						BASE STOCK METHOD (Base = 2,000,000 lbs. at 6 c.)					
1947				ISSUED		BALANCE				ISSUED		BALANCE			
Opening Balance						lbs.	c.	\$				lbs.	c.	\$	
						2000	16	320(A)				2000	6	120(B)	
Quarter	lbs.	Unit Price c.	\$	lbs.	Unit Price c.	\$				lbs.	Unit Price c.	\$			
1st ...	400	16	64	2100		336	400	16	64	2000	6	120	100		16
2nd ...	300	14	42	2400		378	300	14	42	2000	6	120	400		58
3rd ...	200	11	22	2700		411	200	11	22	2000	6	120	700		91
4th ...	200	11	22												
	800	10	80	2500		389	1000	10	100	2000	6	120	500		71
	1900		230				1900		228						



(000 omitted)

			"LAST IN FIRST OUT"			BASE STOCK METHOD (Base=2,000,000 lbs. at 6 c.)							
			ISSUED	BALANCE		ISSUED	BASE		BALANCE		CURRENT		
				lbs.	c.		lbs.	c.	lbs.	c.	lbs.	c.	\$
1947				2000	16	\$ 320(A)			2000	6	120(B)		
Opening Balance													
Quarter	lbs.	Unit Price c.					lbs.	Unit Price c.					
1948													
1st	500	9	45	2700		407	500	9	45	2000	6	120	89
2nd	400	8	32	2800		415	400	8	32	2000	6	120	97
3rd	100	9	9										
	100	8	8										
	600	7	42	2600		398	800	7	56	2000	6	120	83
4th	600	5	30	2800		408	600	5	30	2000	6	120	93
	2300		166				2300		163				
1949													
1st	700	5	35	2800		408	700	5	35	2000	6	120	93
2nd	500	4	20	2600		398	700	4	28	2000	6	120	85
	200	5	10										
3rd	600	4	24	2600		398	600	4	24	2000	6	120	85
4th	700	3	21	2700		401	700	3	21	2000	6	120	88
	2700		110				2700		108				
1950													
1st	700	4	28	2800		405	700	4	28	2000	6	120	92
2nd	800	5	40	3000		415	800	5	40	2000	6	120	102
3rd	600	7	42	3100		422	600	7	42	2000	6	120	109
4th	100	5	5										
	100	7	7										
	1200	9	108	2900		410	1400	9	126	2000	6	120	91
	3500		230				3500		236				
1951													
1st	100	5	5										
	1000	11	110	2800		405	1100	11	121	2000	6	120	80
2nd	800	13	104	2800		405	800	13	104	2000	6	120	80
	100	5	5										
3rd	700	14	98	2700		400	800	14	112	2000	6	120	66
4th	100	3	3										
	100	4	4										
	1200	16	192	2500		393	1400	16	224	2000	6	120	34
	4100		521				4100		561				

(A) Assumed cost value below "market" value.

(B) Reduced by special reserve to 10 c. per pound below cost.

## EXHIBIT "B"

## "MODERN MANUFACTURING COMPANY"

Statement showing comparison of quarterly stock values with assumed ruling market prices  
(000 omitted)

														BASE STOCK METHOD							
AVERAGE PRICE METHOD						"FIRST IN FIRST OUT"		"LAST IN FIRST OUT"		BASE STOCK		CURRENT STOCK									
				Market Value	Balance	Over/Under* Market Value	Balance	Over/Under* Market Value	Balance	Over/Under* Market Value	Balance	Over/Under* Market Value	Balance	Over/Under* Market Value							
														\$	\$	\$	\$	\$	\$	\$	\$
Balance	lbs.	c.	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$							
Jan. 1, 1947	...	2000	16	320	320	—	320	—	320	—	120	200*	—	—							
Quarter																					
1st	...	2100	16	336	336	—	336	—	336	—	120	200*	16	—							
2nd	...	2400	14	336	373.5	37.5	372	36	378	42	120	160*	58	2							
3rd	...	2700	11	297	398.9	101.9	395	98	411	114	120	100*	91	14							
4th	...	2500	10	250	341.9	91.9	315	65	389	139	120	80*	71	21							
1948																					
1st	...	2700	9	243	341.4	98.4	298	55	407	164	120	60*	89	26							
2nd	...	2800	8	224	333.8	109.8	280	56	415	191	120	40*	97	37							
3rd	...	2600	7	182	287	105	225	43	398	216	120	20*	83	41							
4th	...	2800	5	140	268.8	128.8	205	65	408	268	120	(a)20	93	53							
1949																					
1st	...	2800	5	140	242.9	102.9	175	35	408	268	120	(a)20	93	53							
2nd	...	2600	4	104	206.9	102.8	137	33	398	294	120	(a)40	85	61							
3rd	...	2600	4	104	187.7	83.7	119	15	398	294	120	(a)40	85	61							
4th	...	2700	3	81	168.5	87.5	108	27	401	320	120	(a)60	88	67							

				AVERAGE PRICE METHOD		"FIRST IN FIRST OUT"		"LAST IN FIRST OUT"		BASE STOCK METHOD		CURRENT STOCK	
				Market Value	Balance	Over/Under* Market Value	Balance	Over/Under* Market Value	Balance	Over/Under* Market Value	Balance	Over/Under* Market Value	Balance
Balance	1950	lbs.	c.	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1st	...	2800	4	112	160-6	48-6	105	7*	405	293	120	(a)40	92
2nd	...	3000	5	150	166-6	16-6	122	28*	415	265	120	(a)20	102
3rd	...	3100	7	217	180-8	36-2*	149	68*	422	205	120	20*	109
4th	...	2900	9	261	195	66*	207	54*	410	149	120	60*	91
1st	1951	...	2800	11	298	219-2	260	38*	405	107	120	100*	80
2nd	...	2800	13	364	251-2	112-8*	304	60*	405	41	120	140*	80
3rd	...	2700	14	378	269-2	108-8*	330	48*	400	32	120	160*	66
4th	...	2500	16	400	296	104*	368	32*	393	7*	120	200*	34

(a) On these occasions the Basic Stock is temporarily overvalued.  
\* Under market value.

**EXHIBIT "C"**  
**"MODERN MANUFACTURING COMPANY"**

CHARGES TO OPERATIONS AND/OR CONSTRUCTION ACCOUNTS  
FOR MATERIALS ISSUED UNDER VARIOUS METHODS

(\$000 omitted)	Average Price Method	"First in First out"	"Last in First out"	Base Stock Method
Year	\$	\$	\$	\$
1947 ...	277-1	304	230	228
1948 ...	258-1	295	166	163
1949 ...	203-3	200	110	108
1950 ...	212-5	140	230	236
1951 ...	403	343	521	561
For Five years	1354	1282	1257	1296

**EXHIBIT "D"**  
**"MODERN MANUFACTURING COMPANY"**

Blanket charges to Surplus Account to credit Inventory credits\*  
Valuation Reserve for Unabsorbed costs.  
Overabsorbed

Year	91-9	65	139	21
1947 ...	91-9	65	139	21
1948 ...	36-9	—	129	52 (32+20)
1949 ...	41-3*	38*	52	54 (14+40)
1950 ...	87-5*(B)	27*(B)	171*	117* (57+60)
1951 ...	— (B)	— (B)	149*(B)	10*(B)
For five years...	—	—	—	—

(B) On these occasions the book (Cost) values have fallen below market values. The practice being to adopt the "lower of cost or market values" for financial statements, any upward adjustment on these occasions is confined within the limits of those previously made to bring cost values down to market values.

As will be described herein, each of four different methods which are generally applied for valuing stores transactions can produce its own separate operating or manufacturing profits; and its own "cost" value of inventories at any given date.

When current market prices are below inventory "cost" values, the question is less important from a tax standpoint, because being the lower, market values prevail under every method. But when the "cost" values are the lower, their consequent use for accounting causes the precise inventory method by which they are derived to affect profits and taxes.

If the taxation authorities, within their right, compute inventory "cost" values strictly upon the basis

of most recent applicable purchase costs, they place the taxpayer on the *Fifo* method for tax purposes. If they admit some other means, they place him on some other inventory method.

#### Choice of a Method

A good or a bad choice for valuing stores transactions can extend with far-reaching consequences upon such matters as: estimates of costs when competitive business is sought; the determining of accurate construction costs; negotiations in labour disputes; and even the appraisal of securities values.

Among the many factors to be considered is the need for advantageous "timing"; for each of the recognised inventory methods can be commenced more advantageously at certain times than at others.

#### Illustrative Examples: Exhibits "A" to "E"

The accompanying exhibits "A" to "E" portray simple operations of a company supposedly named "Modern Manufacturing Company," and engaged, let us say, in the single business of manufacturing rubber matting, or rubber sheeting. By ignoring for our purposes those other materials which enter into such manufacturing, we lose no point to our examples.

Whether or not the market price trends indicated in the exhibits take place immediately is not important when considering what may result from wide price variations that are liable to be experienced ultimately for many commodities.

For simplicity, and with no ill effect upon the illustrations, all labour, administration, and other costs apart from materials, are assumed to be 50 per cent. of selling prices for each of the five years.

#### The "Average Price" Method

The operation of the *average price* method is self-evident, and simple. It blends the principal features of both *Fifo* and *Lifo*. It tends generally to produce results somewhere between those two methods.

#### The First in First Out (FIFO) Method

The principal feature of *Fifo* is that it values issues from stores, and residual book inventory balances at "historical cost." Consequently, when prices are falling, it tends to produce relatively high manufacturing costs, and relatively low operating profits. When market prices are falling, this method tends also to leave relatively low book inventory balances.

Conversely, when markets are rising, *Fifo* induces low manufacturing costs and high book profits. By further causing residual book inventories to be highly valued, *Fifo* often brings into account book "profits" which



may never be realised even where such inventory values are below current market prices at the dates of the relative financial statements.

By its disregard of current market prices for stores issues, *Fifo* tends to cause financial statements to be influenced unduly by wide price fluctuations rather than to show the results of normal operations. Unless such statements are viewed with intelligent reserve, they can induce dangerously misleading conclusions. Financial statements which fail to take into account widely varying costs of materials which *must* be replaced in the normal course of continuing operations do not serve the best interests of finance and industry.

The U.S. Department of Commerce has estimated that for the year 1946, business profits in the U.S.A. were inflated from \$7,500,000,000 by 62 per cent. to \$12,200,000,000, and that the difference, \$4,700,000,000 represented nothing more than inventory price differences! This in a country where *Lifo* has received serious attention! Without *Lifo*, the inflation would have been larger; a greater use of *Lifo* would have reduced much of the inflation and it would have lightened at least part of the heavy tax burden which that inflation produced.

Both *Fifo* and the *average price method* can prove also, during times of wide price fluctuations, to be inadequate whenever it is necessary to make realistic estimates of costs upon which to make quotations in search of new and competitive business.

Every experienced business man knows that if he fails to pay due regard to current market prices, he may lose valuable business during times of falling prices; or, during times of rising prices he may obtain business involving him in losses. If he persists in that unprofitable course, he will soon go out of business altogether. Examination of Exhibit "A" shows for example that quotations made during the last quarter of 1948 would be unlikely to bring business if materials then being marketed at 5 cents a pound were quoted under *Fifo* at 10 cents a pound. It will also show that the use of 3 to 4 cents a pound under *Fifo* during the last quarter of 1950 would probably result in business involving the unnecessary sacrifice of at least 5 cents a pound on materials used.

Thus, no matter how advantageous *Fifo* may be from various other standpoints, it cannot be followed slavishly by the many businesses that have to bend to the dictates of competition for their survival. At the best, such businesses can adopt *Fifo* only when it is practicable; modify its use whenever necessary, and at all times keep an elastic view as to its application. Such mixed procedure, with its confused bookkeeping, is not desirable.

We defer until later the effects of *Fifo* upon the incidence of taxation.

#### "Last In First Out" Method (LIFO)

One of the principal advantages claimed for *Lifo* is that it tends to a desirable levelling off of "peaks" and "valleys" of profits which otherwise may be exaggerated during ever-recurring fluctuations in economic conditions, and in market prices.

Study of the accompanying Exhibits "A" and "B" will show that at all times *Lifo* causes materials to be charged out more closely to current market prices than do either *Fifo* or the *average price method*. To that extent, therefore, *Lifo* serves better the business criterion that current material costs should be kept in line with current market prices. Thus, it aids the manufacturer automatically to meet price competition without confusing his financial records when he is seeking new business.

*Lifo* tends when prices are falling, to presentation of true operating results rather than the transitory effects of such market condition.

When market prices are rising, *Lifo* tends also to induce the reflection of true operating costs rather than the transitory effects of high market prices. Especially it affords some protection against the danger of any display in financial statements of "profits" which at any time may be found unrealisable because of a sudden reversal in market price trends.

It is of passing interest to note that in the U.S.A. adoption of *Lifo* does not necessarily mean that this method must be applied to every line in the inventory. The tax regulations there permit taxpayers to apply this method to lines of materials of similar nature, and choose some other method for dissimilar lines. The authorities require, however, that there shall be a clear understanding on the matter before permission to use *Lifo* is given; and they reserve the right to decide upon the full extent to which that method, once chosen, must be used.

#### "Base Stock" Method

The *base stock* method has found favour somewhat less widely than have the three alternative methods now discussed. It merits close consideration. By it a pre-determined quantity of materials is regarded as a permanent investment, to be kept in reserve at all times for rotating physical use, and to be valued at prices so low that they are unlikely ever to be above market prices. Thus, we see in the accompanying Exhibit "A" a supposed base stock of 2 million pounds of rubber, valued at 6 cents a pound. Because it sometimes happens that even the most conservative estimate may prove to be inaccurate, and because it is desired to provide for treatment in such circumstances, the fixed price of 6 cents per pound is used in spite of the knowledge that lower market prices are introduced later in the examples. The fact that this fixed price is much below that adopted for other opening balances does not disturb the comparisons of subsequent effects of the various methods.

When prices are falling, this method produces reducing costs; when prices are rising, it produces increasing costs. Thus, by avoiding any minimising of profits in "bad" times, and any exaggeration of profits in "good" times, it tends to avoid those unhealthy extremes which *Fifo* tends to produce.

The *base stock* method also tends to restrict unnecessary speculation in materials. It causes prices used in competitive bidding for new business to be nearest in line with real costs, and so is especially suitable when competitive quotations are to be made for new business. By requiring a setting aside of a stated reasonable "base stock" at a conservative fixed price, and by requiring that issues of materials from the surplus stock over that "base" shall be offset by corresponding purchases at the times of such issues, it reduces more than any other method any need to make book adjustments to bring book inventory values to the "lower of cost or market."

However, the taxation authorities outside the U.S.A. would quite probably (and reasonably) value the "base stock" together with the "current stock" for their purposes. Such probability is reflected in the taxation examples given later in this discussion (for Case 2).

Those who adopt this method must also realise that by setting aside a large reserve inventory and pricing it at an abnormally low value, they automatically create a "secret reserve" in their accounts. The amount of such "secret reserve" will be the amount by which the adopted low price is less than the fluctuating market prices for the materials forming the "base stock" or the actual cost of that stock, whichever is the lower.

However, if a business man considers the *base stock* method sufficiently advantageous to him to cause

him to overcome his aversion to a "secret reserve," and if he can afford to maintain it in his financial statements, he may decide to use it. If he does so, his operations on stores account will resemble those of a banking institution which "covers" every transaction that it makes in foreign exchange; or those of any other business concern which makes it a practice to replace materials in approximately the same quantities as and when they are used, as nearly as possible to the prices at which they are used.

It is clear that the *base stock* method has many

advantages which justify the attention sought for it by its partisans. Its tendency to restrict the privilege often vested in managers to try to anticipate price rises or falls by purchasing more heavily or more lightly than for normal requirements may be considered by some readers to be obstructive. However, if in practice the necessity of using "managerial judgment" in such matters prevails, the *base stock* method still serves to separate the results of the "speculation" from those of normal operations, and so serves a good purpose.

(To be concluded)

## The Auxiliary Forces

By THE EARL OF LIMERICK

Following a lunch-time talk to members of the Incorporated Accountants' London and District Society, I was asked to send some notes on the Auxiliary Forces.

These are mainly the Territorial Army, the Royal Auxiliary Air Force, and their associated Women's Services, the A.T.S. and the W.A.A.F.; a big subject for limited space. So these notes must be generalised, and detail must be sought elsewhere, as suggested at the end.

Government policy is to reduce our regular forces to the minimum compatible with known commitments and foreign policy. Behind our still diminishing regular forces there are only the formations of these auxiliary forces.

Is it the job of us all to ensure the success of this policy and system? Yes: because the ideals and security for which two great wars were not too large a sacrifice depend on it.

What is this system? The first phase is the completion of unit cadres of volunteer soldiers and airmen of experience, formed in May, 1947, but not yet at sufficient strength. These must be strengthened and re-trained by the end of 1949 in order to be ready for the second phase. That is to absorb and keep trained the intake of National Service men, who start their Reserve obligation in January, 1950. The resulting units will be our National Reserve Army and Air Force. So, clearly, the success of this scheme, for which no alternative exists, depends, first, on patriotic men, who, despite the calls of family and work on their time, will volunteer now.

But aren't the arms and the armies and air forces even of this last war already out of date, by reason of "atom" and supersonic projectile techniques?

No: our scientific and military advisers are definite that "push-button warfare" has not arrived. Research is continuous, but formed and disciplined bodies are needed to use the results of it, just as they have always been.

What is the hurry? Much the same as for forming a Fire Brigade. We don't want a war or a fire, but if they come they can do so quickly, and, therefore, quick and effective measures are needed.

But who would do what job, and how quickly would they be wanted? The anti-aircraft units and the R.A.A.F. are obviously first in action. Their ability to give immediate defence is vital to our full military and civil mobilisation. The other Territorial formations and ancillary services mobilise next. All these are now planned on the same basis as the regular services.

Can civilian soldiers and airmen be as efficient as regulars?

No: but they can be so good that they can swing the scales from defeat to victory, and that is about what happened in both the last wars.

Are all the big questions about extra holidays for volunteers; civil pay for those who volunteer; differences of obligation between volunteer and National Service men after 1949, and the definition of reserved occupations, now cleared up?

No. Some are still being discussed between the Government Departments concerned, and, although very difficult to solve, are being cleared up gradually. The first question, so far, is met by Government; by boards of nationalised industries; by local government authorities, and by corporate or private employers, in a variety of ways. There is no unanimity. Trade Unions and employers alike try to reconcile the conflicting needs of essential services, or manufactures, or exports, and the costs of these things with the calls of the defence services.

How are we to decide matters in our own businesses, and how should we advise others when asked to do so professionally?

Weigh the value of homes and work and spare what you feel is just and possible.

Yes, but shouldn't the State pay for all this and order me or my people about if it wants us?

The State is ourselves. Ideally, no doubt there should be an equal burden in cash and time. The National Service Act aims at this for the young men. But, as explained already, a voluntary force of older men is needed to get our Territorial Army and Auxiliary Air Force going.

Should we not wait until the Government has cleared up the anomalies mentioned before we weigh in?

No: because those that are soluble will be solved anyway, and some never can be. If we had withheld our voluntary help before 1914 or before 1939 for similar reasons, the survivors in Britain would be talking German now. And if we wait now and withhold voluntary service, we lay ourselves open to similar risks. Britain still depends on the voluntary spirit in many essential parts of our national life. Even when the National Service Act brings young men into the Auxiliary Forces they will be of little value unless they are inspired by that same voluntary spirit to give their enthusiasm to their Territorial and R.A.A.F. comrades and to their units.

Finally, the enthusiasm and service needed from young men and women must spring from the leadership of those of us who, being older, are in responsible positions, and must be helped by sympathetic staff organisation always and by material means, too, whenever circumstances properly permit this.

Details of Territorial Army and of Royal Auxiliary Air Force and of the Women's Auxiliary Army Corps Units in the City or County of London, and the terms and conditions of service, can be obtained from: The Secretary of the City of London Territorial and Auxiliary



Forces' Association, Finsbury Barracks, City Road, London, E.C.1, or from The Secretary of the County of London Territorial and Auxiliary Forces Association, The Duke of York's HQ., King's Road, Chelsea, London,

S.W.3. The secretaries of every County Association also provide similar information about their own counties. Their telephone numbers are usually under the word "Territorial."

## TAXATION

# Income Arising

Under Cases III, IV and V of Schedule D, the rules of assessment for a new source are that in the year in which the income first arises, the assessment is on the income of that year. This "actual" basis also applies for the second year, unless the income first arose on April 6 in the first year, when the assessment for the second year is on the income of the first year. The preceding year's income is then the basis of assessment, but the first "preceding year" assessment can be adjusted to "actual" if the taxpayer so claims (Rule 2, Case III; Section 29 (1) Proviso, Finance Act, 1926).

Where the "remittance" basis applies, i.e., in the case of persons not domiciled in the United Kingdom and British subjects not ordinarily resident in the United Kingdom (Cases IV and V), and earned income of individuals (Case V), references to income which arises are to be construed as references to income received in the United Kingdom (Section 29 (1), proviso (b) (iv), Finance Act, 1926).

It is therefore important to decide when the income first "arises." Is it the date of acquisition of the source, or the actual date when the interest or dividend is due or paid, or in the case of the remittance basis, of receipt in the United Kingdom?

In *St. Lucia Usines and Estates Co. v. Colonial Treasurer of St. Lucia* ((1924) A.C. 508), the House of Lords had the question before them in connection with a Colony. A company, in 1920, sold all its estates in the Island of St. Lucia, the purchase price to be paid in 1921, with interest which, however, was paid later. It was held that the company could not be assessed to income tax in 1921 as it was not then resident in the colony and no income had arisen or accrued in that year. Lord Wrenbury said: "The words 'arising or accruing' are not equivalent to the words 'debts arising or accruing.' To give them that meaning is to ignore the word 'income.' The words mean 'money arising or accruing by way of income.' There must be a coming in to satisfy the word 'income.'" And in *Dewar v. C.I.R.* ((1935) 19 T.C. 561) the Master of the Rolls repeated the last sentence just quoted.

In *Back v. Whitlock* ((1932) 16 T.C. 723, at page 727) Rowlatt, J., made it clear that: "Income [must be regarded] as first arising when it first arose as an income and not . . . when the possessor of it swam into the purview of the Income Tax Acts." In that case a non-resident was assessed, on becoming resident, in respect of foreign income as if it first arose when he became resident, but the Court held that as income from the same sources had arisen before he became resident, the first assessment must be based on the income of the preceding year. The same principle had been decided under Case I in *Fry v. Burma Corporation* ((1930) 15 T.C. 113). Moreover, in connection with interest taxable at the source, it has become trite law that receivability without receipt is nothing (*cf. Lambe v. C.I.R.* ((1933) 18 T.C. 212). "If there is no interest paid, there is no income; there is nothing to deduct from, and nothing to assess" (*ibid.*, at page 220). . . . "but if in a later year the debtor pays the arrears of interest, the payment may be referred to each of the

years in which the interest was receivable . . ." (*ibid.*), but that deals with interest under Section 39, Finance Act, 1927, where tax is deductible at source.

Lawrence, L.J., in *Simpson v. Executors of Maurice and Executors of Kay* ((1929) 14 T.C. 580) said: "Income tax becomes chargeable in respect of foreign securities and possessions when the income therefrom arises or accrues to the taxpayer and not when he actually receives or handles the income." (In this case interest had been paid to the bankers of the deceased in a country with which the United Kingdom was at war, and did not reach the United Kingdom until after hostilities ceased, and it was held that the income arose when received by the bankers.) The word "accrues" must not be read here in the sense that it includes accruing income not yet due; Cases III, IV and V have no regard to income until it is due.

It seems clear, therefore, that a new source under Cases III, IV and V is not properly accessible until income actually emerges from it, and that the first year of assessment is that in which the income so emerges, e.g., if the source was acquired prior to April 6, 1948, but no income arose until after that date, 1947-48 would not be the first year of assessment.

The position is complicated by Section 30, Finance Act, 1926, which provides that if a person ceases to possess part of a source, the cessation rules are to apply to that part (the continuing part being assessed on the preceding year basis), and if a person adds to a source, tax on the income from the addition is to be computed separately on the new source rules. This section does not, however, appear to affect the above conclusion.

Where the remittance basis applies, the income is deemed to arise when received in the United Kingdom. The Revenue practice of regarding the first remittance as for, say, the first year of assessment therefore seems to be correct. (It is worth noting here that a person is not charged in respect of money brought or remitted to the United Kingdom after the source has ceased, nor is he charged for the first year of residence on more than the income arising abroad from the date he becomes resident to the end of the year of assessment.) If there had been a remittance in some year prior to the taxpayer becoming resident, the "new source" rules could not be applied, as the income first arose in the United Kingdom earlier (*Carter v. Sharon* ((1936) 20 T.C. 229).

The above remarks indicate that the seemingly obvious is not always as clear as it might be; excursions like this into the meaning of the Acts are valuable not only for their results in figures when applied to specific cases but also for the training of the mind on the right lines to understand the ramifications of the Income Tax Acts.

Mr. G. C. Stone, F.C.W.A., Chief Accountant, Wilmot Breddon, Ltd., Camdon Street, Birmingham, has been elected President of the Institute of Cost and Works Accountants for the ensuing year. Mr. Stone, who is 45 years of age, is the youngest member of the Institute to occupy the presidential chair.

## The Finance Bill in Committee

The following amendments were effected during the Committee stage of the Finance Bill. Full reports of the proceedings in the Report stage are not available as we go to press; any further amendments will be dealt with in our next issue.

### Age Allowance

The proportion of the excess of total income over £500 to be surrendered in marginal relief cases is reduced from three-quarters to five-eighths. This will bring the limit at which the margin ceases to operate to £757 in the case of a single person, and £731 in the case of a married man, where the income is all unearned.

### Woodlands

It has now been agreed to amend the Bill to the effect that the transfer from Schedule B to Schedule D of farming and other profits arising from land is not to apply to woodlands. The existing law is to continue regarding woodlands managed on a commercial basis and with a view to the realisation of profits.

### Easements

The Chancellor of the Exchequer referred to Sub-section (1) (d) of Clause 30, and pointed out that it was intended to close a possible gap in the legislation where what is being done does not amount to commercial exploitation of the land. It will make liable to tax, fees charged for admission to land or buildings or for parking cars.

### Rehabilitation Costs

Amendments were made to give more elasticity to the claims. The Commissioners of Inland Revenue will have power to accept particulars in appropriate circumstances at later dates than those laid down in the Bill. The purpose is to make possible more sympathetic handling of hard cases. It is to be expected that the time limits will be enforced where there is no reasonable excuse for the delay. Similar amendments were made in Clause 72 (relief from E.P.T. for terminal expenses).

### Directors' and Employees' Benefits

The wording of Sub-section (4) of Clause 38 has been amended so that the Clause does not apply to expense incurred by the body corporate in or in connection with the provision of meals in any canteen in which meals are provided for the staff generally. The word "canteen" has taken the place of the words "business premises of the body corporate"; the intention being to cover cases where a company uses the facilities of a neighbour.

The Chancellor of the Exchequer said in connection with meal tickets where no canteen was available, that if an outside restaurant were used and part of it were set aside for ticket-holders, it would be covered, but if it were a case of isolated meal tickets which could be taken to any restaurant over a large area, that, "of course," would not be covered.

In answer to a question whether, if a firm provided meal vouchers for a particular firm's restaurants, they would be described as canteens, he said that if all the staff went to a particular restaurant that would be covered. It would be the canteen the firm was using. But if isolated members went to this, that, or the other restaurant, that would not be covered.

Clause 38 (benefits in kind) is not to apply to expense incurred by the body corporate in or in connection with the provision for a director or employee himself, or for his spouse, children or dependants, of any pension, annuity, lump sum, gratuity, or other like benefit to be given on his death or retirement (new sub-section (5)).

### Special Contribution

An amendment makes it clear that where an individual dies before final settlement of the Special Contribution, all his rights as to appeal, etc., pass to his personal representative. Further amendments are:

- (1) Income is to be treated as income for the purposes of the contribution if it would be so treated for the purposes of sur-tax.
- (2) Payments made in connection with an individual's retirement from a trade, profession or vocation, or with his death while carrying on or exercising a trade, etc., either to that individual or to any other person, are to be disregarded in ascertaining the aggregate investment income of *that individual or such other person*. (The words in italics have been added.)
- (3) The words "total income" are deleted in Clause 50 (1). This corrects a slip in the drafting. The clause lays it down that, so far as the payee is concerned, pensions arising under (2) above are part of his income, but so far as the payer is concerned, they are part of his investment income.
- (4) In ascertaining aggregate investment income, no deduction is allowed in respect of any relief for losses.
- (5) Any allowance under the Income Tax Act, 1945, available or primarily available against a specified class of income, which is deducted from or set-off against income of that class for 1947-48, is to be allowed as a deduction in ascertaining aggregate investment income—but only in so far as the amount of the allowance does not exceed the investment income for that year of that class.
- (6) Several amendments have been made in Clause 55 (recovery of contribution from trustees), notably one restricting the right of a contributor to effect recovery from a trust, in that he must give notice within six months from the date of payment. If one trust is entitled to recover from another, the trustees must give notice within one month from receipt of notice from the contributor.  
Any income that can be identified as ultimately originating from a foreign trust is exempted from the contribution.
- (7) Amendments to Clauses 56 (Application of trust property, etc., in payment of contributions); 57 (Husband and wife), particularly one making it clear that marriage in 1947-48 does not require aggregation of the wife's pre-marriage income with that of the husband; 58 (certain companies); 59 (appeals); 60 (income attributable to a period of years received in 1947-48); 61 (error or mistake). These are voluminous and detailed.
- (8) Maintenance relief (Schedule A) is to be allowed for the Special Contribution on the basis of the expenditure in 1947-48, not that of the five years' average, provided applications made to the Special Commissioners before the assessment of the Contribution is made final.
- (9) Income arising from property settled on the National Trust, where the settlor reserves a life interest to himself and/or his wife, is to be excluded from investment income.
- (10) A Schedule was added to the Bill to deal with director-controlled companies. The consideration of this was left to the Report stage, and will be dealt with in our next issue.

In answer to a question whether the interest allowed on a payment of the Special Contribution before its due date would be liable to income tax, the Chancellor said it would be a discount, and not a receipt, and would not be assessable.

### Profits Tax

An amendment of Clause 64 ensures that where a subsidiary company pays interest to its parent company, an allowance can be made to the parent company to prevent the two companies from paying more than 25 per cent. rate altogether.



## Taxation Notes

### Maintenance of Property, Etc.

Where property is held for business purposes, *e.g.*, trade premises, it is usual to claim the net annual value and the actual cost of repairs, etc. Where the latter are considerable, it may be preferable to claim in that way owing to the whole of the repairs being allowable, whereas a maintenance claim under Schedule A would be limited to the annual value. If repairs are small, election for maintenance relief and the deduction of gross annual value may be profitable on balance.

In the case of agricultural property, however, the limitation does not apply (Section 32, Income Tax Act, 1945), and it may be preferable to claim maintenance relief, charging the gross annual value against the farming profits. Maintenance will apply to the whole house, while repairs could only be claimed in the farm accounts on the portion of the house (usually one-third) applicable to the farm.

The introduction of Section 33 of the Income Tax Act, 1945, giving relief over ten years on capital expenditure on farm buildings, etc., seems to have focused the manner of giving relief. Any expenditure that is of the nature of repairs and renewals is readily admitted as a charge against profits, leaving only the improvement element to be included in the Section 33 claim.

### Gifts Inter Vivos

The transitional period provided by the Finance Act, 1946, expired on April 9, 1948, and in respect of any death after that date the statutory period which governs liability to estate duty is five years, except in the case of gifts for public or charitable purposes, where the period remains at one year.

### Estate Duty—Marginal Relief

The big increases in the rates of estate duty, effective in respect of deaths after April 9, 1946, have emphasised the importance of marginal relief and widened the ranges of the margins, *e.g.*:

Where the estate exceeds	The margin operates to
£ 2,000 ... ..	£ 2,020 4 1
10,000 ... ..	10,212 15 4
25,000 ... ..	25,581 7 11
40,000 ... ..	41,000 0 0
50,000 ... ..	51,315 15 10
75,000 ... ..	78,214 5 9
100,000 ... ..	107,682 6 2
250,000 ... ..	275,000 0 0
500,000 ... ..	562,500 0 0
1,000,000 ... ..	1,166,666 13 4
2,000,000 ... ..	2,400,000 0 0

### Non-Resident's Investments

Certain Government securities are exempted from United Kingdom death duties while in the beneficial ownership of persons who are neither domiciled nor ordinarily resident in the United Kingdom. This subject has considerable importance to-day when clients are seeking advice as to their position if they go abroad. The term "domiciled" in this connection means having a permanent home there, or, having had such a home, residing elsewhere without having abandoned all intention of returning. The securities in question include: 3 per cent. War Loan, 1955-59; 3½ per cent. War Loan; 4 per cent. Victory Bonds; 2½ per cent. National War Bonds (not 1954-56, however); 3 per cent.

and 2½ per cent. Defence Bonds; 3 per cent. Savings Bonds; Savings Certificates (seventh and eighth and £1 issues).

For income-tax purposes exemption is given in respect of Government securities in the beneficial ownership of persons who are not ordinarily resident in the United Kingdom. This is much less stringent than the exemption from death duties, as it is very difficult to prove change of domicile. The above securities qualify for the income-tax exemption.

The other provision to which emigrants should have their attention drawn is Section 24, Finance Act, 1920, which will enable them to claim relief from United Kingdom income tax to the extent of a proportion of the tax that would be payable on their world income, if all taxable here, the proportion being that which their income not liable in the United Kingdom bears to the world income.

### Retirement Benefits

A joint committee of the Federation of British Industries, the Association of British Chambers of Commerce, the Life Offices Association and the Association of Superannuation Funds has recently reviewed the subject of the tax treatment of retirement benefits. The enquiry was made in an attempt to define the principles which should govern the tax treatment of retirement benefits and to suggest the modifications of the existing law and practice required to carry out those principles. The report, which as a result was submitted to the Commissioners of Inland Revenue, has been printed, and copies can be obtained from the London Chamber of Commerce (price 6d. each).

### Depletion of Mines

The Overseas Mining Association has submitted to the Chancellor of the Exchequer a memorandum on the question of depletion allowances for income tax and profits tax. It gives the history of the subject and the case for allowances, pointing out the illogical admission, under the 1945 Act, of allowances on the cost of direct discoveries of mineral deposits and non-admission of allowances on the cost of their purchase from another. The fact that allowances are granted in the United States, Canada and Australia gives those countries a great advantage in competition for overseas concessions. It is suggested that expenditure on mining properties or concessions be included in the 1945 Act allowances. The Chancellor has not yet seen fit to accept the suggestion, which is one that most accountants endorse.

### Italian Extraordinary Progressive Tax

His Majesty's Embassy at Rome reports that the Italian Government have agreed that the question of liability of British subjects and corporations to the Extraordinary Progressive Tax shall be referred to the Conciliation Commission constituted under Article 83 of the Italian Peace Treaty. Pending the findings of the Commission, an administrative circular has been signed and is now in force suspending payment of this tax for the present by all United Nations nationals, on written application in each individual case to the local Intendenza di Finanza. The circular covered instalment payments of tax including the instalment of company tax payable in June and the proportional tax on corporations payable in August.

British subjects or corporations from whom this tax has been claimed are accordingly advised to communicate with the local Intendenza di Finanza without delay.

## Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

**E.P.T.—Capital—Surplus cash retained to enable depleted timber stocks to be replaced—Timber Control and restrictions of supplies—Whether cash reserves capital employed—F. (No. 2) Act, 1937, Schedule VII, Part II, para. 3.**

*Acme Flooring & Paving Co. (1904), Ltd. v. C.I.R.* (C.A., March 3, 1948, T.R. 43), was noted in our issue of October, 1947. The Special Commissioners had accepted the Revenue view that the average cash balance during the years of the standard period, viz., £86,000 [this sum appears as £82,500 in the judgment of Tucker, L.J.] was adequate, and that the differences between this amount and the cash balances during the respective chargeable accounting periods were upon the facts of the case "moneys not required for the purposes of the trade or business" during the said periods. Atkinson, J., had affirmed their decision as one of fact, and a unanimous Court of Appeal endorsed his finding. The point of the case was whether the prospects of the company being able to replenish its depleted stocks at an estimated cost of £300,000 were so remote as not to be within "a reasonable tract of time"; and it was held to be implicit in the Special Commissioners' decision that there was no probability of the timber control being removed within a reasonable time after the conclusion of the two accounting periods in question. Leave to appeal to the House of Lords was refused.

**Income-tax—Charity—Non-profit-making company formed under auspices of Arts Council of Great Britain—Objects set out in Memorandum not restricted to charitable purposes—Whether company entitled to exemption as a charity under Section 37, I.T.A. 1918, Section 30, F.A. 1921, and Section 24, F.A., 1927.**

*Tennent Plays, Ltd. v. C.I.R.* (C.A., March 5, 1948, T.R. 49) was noted in our November, 1947, issue. The company was formed in 1942 under the auspices of the Council for the Encouragement of Music and the Arts, which in 1945 changed its name to the Arts Council of Great Britain. It had no capital, it could not distribute any profits to its members, no part of its property could be distributed to its members on a winding up; and the Special Commissioners had found that the company, in fact, did nothing but foster dramatic art, subject to the guidance of C.E.M.A. and the Arts Council. Unfortunately, however, its memorandum did not restrict its scope to such work. By sub-clause (B) of Clause 3, it was empowered to "present, promote, organise, provide, manage, conduct" *inter alia*, "shows, educational and other entertainments, exhibitions, dances, competitions, amusements, recreations," whilst, by sub-clause (D), "as ancillary to the foregoing objects and with a view to finding income and funds for the purposes of the company," it was, in substance, authorised to carry on the business of public entertainment. Sub-clauses (O) and (S) were also not helpful to the company's case.

In the King's Bench, Macnaghten, J., held that sub-clause (D), although "ancillary," was fatal to the claim, and affirmed the decision of the Special Commissioners that the company was not "established for charitable purposes only," as required by s. 30 (3) of F.A., 1924. A unanimous Court of Appeal, whilst coming to the same conclusion, did so upon the broader grounds which had been the basis of the Special Commissioners' decision, holding that the company did not pass the test even if sub-clause (D) was regarded as of no account. Leave to appeal to the House of Lords was refused.

The leading judgment was given by Cohen, L.J. It was an acute analysis of the company's memorandum

in relation to the argument, based upon previous decisions, that where there is a dominant charitable purpose revealed, subsidiary non-charitable purposes do not bar the title to exemption; and he reached the conclusion that the case was not one where it was valid. Somervell, L.J., who gave the other judgment, agreed; and, in a passage which probably explains the whole case, said, regarding one of the sub-clauses:

"I think it illustrates that these articles have been drafted in what may well be a very proper way when you are dealing with a trading company, and the draftsman wants to throw the net as wide as possible, and to take in any unexpected thing which the company may find it desires to do, but which is clearly not the method if it is desired to satisfy a Court that the company is established 'for charitable purposes only.'"

**Income-tax—Profits of trade—Company's balance sheet—First appearance of credit item "Directors' current account, £1,392"—Whether concealed profits—Whether, if assessable, part of amount assessed for right year—Income Tax Act, 1918, Schedule D, Case I.**

*Stoneleigh Products, Ltd. v. Dodd* (C.A., March 5, 1948, T.R. 57) was noted in our issue of May, 1947. The case arose out of the appearance in the company's balance sheet at August 31, 1941, of an item "Directors' Current Account, £1,392 12s. 7d." Eventually, an additional assessment had been made for 1942-3 on the footing that the sum in question was profit for the year to August, 1941. Notice of appeal having been given, and there being no attendance by the director concerned, the General Commissioners had adjourned the case and required his attendance and that of his aunt at a further hearing, the lady being the alleged source of the sum in question. Unfortunately, the evidence of the nephew was flatly contradicted by that of the aunt, and the Commissioners, accepting the latter and rejecting the former, had confirmed the assessment. In the King's Bench, Atkinson, J., had affirmed their decision as one of fact. A unanimous Court of Appeal, Tucker, L.J., giving the only judgment, agreed with it, and refused to give leave to adduce evidence to show that the sum in question was profit of an earlier year, upon the ground that this was also a pure question of fact which should have been dealt with by evidence before the General Commissioners. Leave to appeal further was refused.

In regard to the second point the case is an illustration of a far from uncommon dilemma. In income tax appeals, unlike other actions, the onus of proof that the assessment is wrong lies upon the appellant, and he can scarcely hope for his denial that a sum is profit to be believed if he couples with it a subsidiary contention that, if he is not believed, the profit should be attributed to a different year.

**Schedule D, Case VI—Annual profits or gains—Acquisition by appellant of exclusive rights to dramatise novel—Copyright in novel retained by author—Film rights assigned in 1939 for 10 years for sum of which one-third paid to appellant—Whether income or capital—Patent and Designs Act, 1907, Section 29—Copyright Act, 1911, Sections 5, 6 (2)—Income Tax Act, 1918, Case VI; General Rules 19 (2).**

*Nethersole v. Withers* (House of Lords, February 27, 1948, T.R. 31), was noted in our issues of March and August, 1946. In the House of Lords, the decision of the Court of Appeal in favour of Miss Nethersole was unanimously affirmed. The question had arisen out of



an agreement between the late Mr. Rudyard Kipling and her in 1897 whereby she had acquired the exclusive right to dramatise the former's novel, "The Light that Failed," the exclusive right to produce the play to be based on the novel, and full power to dispose of all her rights in respect of it. In 1914 the question of a film version arose. It affected the copyright both of the novel and of the play, and an agreement was made whereby the sole control of the film and cinematograph rights in all countries was to be in Mr. Kipling's hands and one-third of the gross receipts for those rights was to be paid to Miss Nethersole. From 1916 onwards various contracts were entered into and in respect of each one-third of the sums realised was paid to her. The case, however, related to a transaction in 1939 between Mr. Kipling's legal representative and Paramount Pictures Inc., described as "the seller" and "the purchaser" respectively, under which the former "grants and assigns" to the latter for a period of ten years "the sole and exclusive motion-picture rights throughout the 'world' with additional rights which may be summed up in the words of the Master of the Rolls:

"So here Miss Nethersole was being paid for (among other things) the right to cut her play to pieces and combine the story with other stories, a right which (whether it should be exercised or not) amounted to a right to diminish the value of the copyright in the play."

The consideration under the agreement was £8,000 and the assessment appealed against was £2,666 under Case VI, a claim that there was liability under Case II having failed, it being held by the Special Commissioners that the respondent had given up the profession of dramatist many years before. They had, however, held that the sums received were of a revenue nature and liable under Case VI.

The judgments of the Master of the Rolls and of Lords Simon and Uthwatt, who gave the only full judgments in the House of Lords, are interesting and important analyses of a very interesting subject. The substance of the ultimate result can be summed up in the words of Lord Simon. Referring to the Copyright Act, 1911, he said:

"The Act also provides that, in contrast with an assignment of copyright, the owner may grant a licence which, though it permits the licensee to use the copyrighted matter within the limits of the licence without breach of copyright, does not involve any change of ownership in the copyright at all. It appears to me that the argument for the Crown does not sufficiently allow for this distinction. It is not disputed that the present is a case of assignment; the respondent" (in the House of Lords, Miss Nethersole was the respondent) "under the relevant agreement, made a partial assignment of her copyright and ceased to be the owner of the portion assigned, receiving a sum of money in exchange. This amounts to a sale of property by a person who is not engaged in the trade or profession of dealing in such property, and the proceeds of such a sale is, for income-tax purposes, a sum in the nature of untaxable capital, and not in the nature of taxable revenue."

**Income tax—Settlement income—Sum settled on trust for settlor and descendants—Where income of settlement less than stated sum balance to be paid out of capital—Stated sum payable to settlor—Whether deficiency payments return of capital or income of settlor—If income, whether to be "grossed"—Income Tax Act 1918, General Rule 21—Trustee Act, 1925, Section 33—Finance Act, 1927, Section 26.**

*John Morant Settlement Trustees v. C.I.R.* (C.A., March 22, 1948, T.R. 71) was noted in our issue of December, 1947. John Morant had in 1939 settled a

sum of £100,000 for the benefit of himself and descendants. The income of the trust was payable to the settlor, and if less than £6,500 after deduction of income tax, but not sur-tax, the trustees, unless directed by the settlor to the contrary, were to raise the deficiency out of capital and pay it to him. Regarding the amounts so raised as repayments of the settlor's capital, the trustees had not deducted tax under Rule 21; but Macnaghten, J., had held that on execution of the deed, the settlor had parted with his capital, and that tax was deductible under the Rule, the trustees being accountable to the Revenue. He had held, however, that the deficiencies paid had not to be "grossed." In the Court of Appeal his decision was affirmed upon both points; but Tucker, L.J., dissented upon the "grossing" point. He held that the trustees had no power to pay other than net sums. Somervell, L.J., said his decision upon this point would have been different if the settlor had not had power to direct the raising of a smaller sum, whilst Cohen, L.J., said that there was no indication of any intention to pay under the power any amounts beyond the sums actually raised out of capital, and that Morant could have forbidden them to do so. The proper inference was that this course was followed. Leave to appeal further was granted.

**Sur-tax—Settlement—Covenant to pay annually such a sum as after deduction of tax would leave a sum equal to net amount of dividends received from a company—Settlor in control of company—Whether terms of settlement such that settlor could revoke or otherwise determine it—Finance Act, 1936, Section 21—Finance Act, 1938, Section 38**

*Wolfson v. C.I.R.* (C.A., March 22, 1948, T.R. 175) was noted in our issue of March last. Atkinson, J., had reversed a determination by the Special Commissioners in favour of the Revenue, and in the Court of Appeal his decision was affirmed by Tucker and Somervell, L.J.J., Cohen, L.J., dissenting. Leave to appeal to the Lords was granted.

The case is of considerable importance within a special field, and the decision casts doubts upon a number of earlier decisions. In effect, it was decided that the natural meaning of the words in Section 38 (1) of Finance Act, 1938: "If and so long as the terms of a settlement are such that any person has power to revoke or otherwise determine," was that the power must be found in and conferred by the settlement, or, as Tucker, L.J., put it, "derived directly therefrom." Cohen, L.J., was, however, of opinion that "any person" could be read as a plural. He saw nothing to preclude the application of Section 1 of the Interpretation Act, 1889, and, on this footing, the appellant and his brothers could put the company into liquidation. He admitted that, applied to the facts of the case, the effect would be the same as if the reference to "the terms of a settlement" were not there.

## Institute of Internal Auditors

The inaugural meeting of the London Chapter was held on February 27. The first monthly luncheon meeting took place on April 7 and was followed by a discussion of a paper on "The Responsibilities of the Internal Auditor," presented by Mr. H. E. Osborn, B.Com., C.A., Director of Accounts, British Transport Commission. The second monthly luncheon meeting held on May 5 was followed by a discussion of a paper on "Organisation and Methods Work," presented by Mr. K. S. Jefferies, a Deputy Director of the Organisation and Methods Division of H.M. Treasury.

The officers elected for 1948-49 are: President, Mr. J. R. Robinson, A.C.A.; Vice-President, Mr. P. B. Hills, A.C.I.S.; Secretary, Mr. R. P. Tester, C.A., c/o Unilever House, Blackfriars, London, E.C.4; Treasurer, Mr. H. E. Osborn, C.A.

**FINANCE****The Month in the City****Gilt-edged versus Equities**

A month of shocks has displaced industrial ordinary shares from the firmer pedestal which they ascended during May. The biggest, though fortunately short-lived, threat to their position was the reduction inflicted by Mr. Taber in the extent of Marshall Aid, which undoubtedly would have meant a severe cut in imports of raw materials and foodstuffs. These cuts have been largely restored, and with them the presumption that British industry will be unimpeded for the next twelve months by shortages of essential raw materials. But the critical note which has become a feature of Marshall Aid discussion in the United States has caused many sober investors to consider whether Europe will receive further instalments of aid for the full four-year term as a matter, so to speak, of natural or inevitable right. The American terms proposed for the bilateral agreements under the Foreign Assistance Act underline the same uncertainty. Coupled with the displacement of General Smuts in South Africa and the continued manifestations of the Cripps financial policy, these doubts have carried the *Financial Times* index of industrial ordinary shares from 121.1 on May 21 to 113.1 on June 25. Meanwhile, gilt-edged stocks have continued firm on quiet investment support. British Electricity stock has risen to par—the first of the nationalisation stocks to do so, though this is not a “clean” price, but includes 13s. 6d. of accrued interest. The Australia conversion, pitched on terms which the market was at first inclined to regard as rather close, was a handsome success, and has undoubtedly set a favourable scene for New Zealand's expected conversion *cum* repayment of nearly £20 million of 4½ per cent. stock. Again, the terms of the Birmingham loan made a favourable impression, since the authorities had evidently not attempted to screw too much out of the market, as was formerly the case in the series of 2½ per cent. conversions in the Dalton régime.

**Conflicting Evidence on Profits**

The past month has seen some of the biggest profit announcements of all time—including Anglo-Iranian, several steamship companies, and some excellent industrial results at home. It has also seen some less favourable pointers which reveal that some companies in light engineering and radio are already faced with lean times. About half a dozen engineering companies of the smaller type have recently passed their preference dividends. In the radio trade the difficulties of A. C. Cossor have been plainly revealed in the transformation of a consolidated net profit of £127,014 for 1946-47 to a loss of £110,480 for the latest year. Stocks and work in progress have shown a great expansion, partly because prices are higher, but equally, it would seem, because of the difficulty of clearing them on a buyers' market. This growth of stocks, though extreme in this particular case, is common to most companies whose reports have recently appeared—including the leaders like Dunlop (up, from £16.4 million to £22.5 million), I.C.I. (from £32.6 to £43.4 million), and Associated Electrical (from £17.0 to £23.8 million). It is causing some financial strain, even in the strongest balance sheets, and this, in conjunction with demands to finance new extensions and plant, is likely to lead to a series of major industrial capital issues during the coming months. It may be

some consolation to those companies which have to pay the so-called bonus issues tax in order to float this new capital on acceptable terms to shareholders that the Chancellor of the Exchequer has promised to examine the working of the tax before next year's Budget. He has also indicated that a review of the profits tax will be made by next year. Meanwhile, the voluntary practice of dividend limitation, which has been a general success from the Government's point of view, has enabled companies to resist appeals for larger dividends, and to plough back an even greater proportion of their earnings to reserves. In this sense, dividend limitation is playing a part in providing industry with the new capital which it now requires.

**Problems from South Africa**

The impact of Dr. Malan's narrow success in the South African election was distinctly painful for those investors who had for several months been investing freely in South African industrial shares. But second thoughts have been steadier, partly because the new administration is not so firmly entrenched that it can apply the policies advocated by some of its more extreme members, and partly because the South African economy itself has been so dependent in the recent past on the import of capital from Britain—represented by the flow of flight sterling from this country—that precipitate action might well do the new Government more harm than good. The South African Exchange Bank holds over £80 million of foreign exchange, almost entirely sterling. Meanwhile, the Bank has been steadily losing gold, until the reserve ratio is only a few points above the legal minimum of 30 per cent. It has been suggested that the new Government might give “hot money” the option of withdrawing or of being invested locally within 30 days. That would lead inevitably to some form of blocking for such new investment, though not presumably for old; the administrative difficulties would have been immense, even if there had been any hope that such measures would, in themselves, solve the problem. But further reports from the Union suggest that these stipulations are not likely to apply to sterling-area residents—including British investors.

**Institute of Cost and Works Accountants**

In connection with the nineteenth National Cost Conference a luncheon was given on May 28 by the Institute of Cost and Works Accountants at the Connaught Rooms, London.

The President of that Institute, Mr. H. D. Jack, F.C.W.A., was in the chair, and there were present a large number of members and guests, who included Sir Frederick Alban, the President of the Society of Incorporated Accountants, and Mr. A. A. Garrett, Secretary.

The toast of “The Institute” was proposed by Mr. F. R. M. de Paula, O.B.E., F.C.A., who referred to the development of cost accounting during the past twenty-five years, and stressed the great importance of costing in relation to management and the imperative need for standard costs.

Mr. H. D. Jack, who was warmly received, responded. He mentioned the expansion which had taken place in the membership and work of the Institute of Cost and Works Accountants and acknowledged Mr. de Paula's contributions to the subject of cost accounting.

Excellent arrangements for the luncheon were made by Mr. Stanley Berger, M.C., the Director and Secretary of the Institute of Cost and Works Accountants.



## Publications

**The Companies Act, 1947.** (The Institute of Chartered Accountants, London. Price 5s.)

This book represents the results of consideration by the Institute of the provisions of the Companies Act, 1947, relating to accounts and audits. Notes on the matters treated, which have been selected after the consideration of the reports of fourteen local Taxation and Financial Relation Committees, are set out and, in different type, extracts from the opinion of Counsel and the recommendations of the Council of the Institute.

All accountants will be grateful for this timely guidance to the profession on the working of the new Act in practice.

The new Act will govern the form of all accounts laid before general meetings held on or after July 1, 1948, and also of the auditors' reports. Forms of auditors' reports for general use and for group accounts are recommended (see page 149 of this issue of ACCOUNTANCY), and these will doubtless be generally adopted.

As is stated in the introduction, "Never before has an Act of Parliament laid down in such detail the matters to be shown in the accounts of so many diverse bodies as the companies registered under the Companies Acts." It is sound that minimum requirements based on experience should be imposed on all companies, but it is unavoidable that literal compliance with these provisions will cause much additional care and work to the officers of all companies, including those which have justly gained a reputation for the highest accounting standards. It is a measure of the difficulties which will everywhere arise that it has been found necessary by the Institute, after consultation with leading Counsel, to make representations to the Board of Trade for clarification of certain of the provisions as they stand, and the results of consultation with the Board of Trade on the meaning of others is included in the book. Such is the high price of any degree of uniformity.

Examples with illustrative figures are given of methods of showing fixed assets in the balance sheet and a variant of these methods, based on Counsel's opinion. Where the provisions of the Act have occasioned amendments to the previous recommendations of the Council relating to accounts, these have been explained and enunciated. Particularly interesting is the variation of the recommendation relating to the use of the term "Provision" and the consequent revised recommendation that this term "Provision" shall cease to be applicable to amounts set aside to meet future income tax. The alternative method previously recommended of stating these amounts separately as deferred liabilities ceases to be available. Counsel has recommended that the Board of Trade should be invited to exercise their powers under Section 120 (1) to clarify the position relating to the provisions of the Act that amounts set aside or withdrawn from reserves and provisions shall be shown in the profit and loss account.

In practice, the provisions of the Act relating to the disclosure of directors' emoluments may be expected to occasion difficulty in some cases, and all auditors will be grateful for the authoritative interpretation of these sections of the Act. Counsel have advised that the auditor should obtain an assurance from the directors that no benefits have been received otherwise than in cash or, alternatively, a statement of such benefits. They further state their opinion that the fact that an independent quorum of the board has passed a resolution to the effect that some particular expense is incurred for the benefit of the company and not for the benefit of a director is in no way conclusive of the facts. "The

two things are not necessarily in opposition. An expense although incurred for the benefit of the company may, none the less, benefit a director . . ." There will be left to the auditor an onerous duty to form an opinion that the value of all benefits enjoyed has been shown at a fair figure, and the assistance given in this book will be invaluable to him in forming his opinion and in convincing his clients of its fairness.

Several legal points relating to group accounts are treated, and it is noted with interest that the question is being examined whether any recommendation can usefully be made on the principles involved in the preparation of group accounts, a subject in which considerable latitude has been left by Section 15.

The text has been admirably prepared, full use having been made of a variety of type, and it is prefaced by two tables of cross-references between the 1947 Act and the consolidating Bill of 1948.—J. A. J.

**Income Tax for Executors and Trustees.** By W. G. Mortimer, A.I.B., F.I.T. (Sir Isaac Pitman & Sons, Ltd., London. Price 18s. net.)

Although not stated in the preface, it is probably a fair inference from what is there said that Mr. Mortimer is an official in one of the Bank Trustee Departments. Trust corporations have a wealth of experience in the many difficult taxation problems arising in the administration of trusts and executorship, but this book will hardly satisfy the professional accountant seeking guidance on these particular problems. The preface assumes that the reader "has already acquired some knowledge of the general principles of income tax from one or more of the many valuable works on the subject now available," but this assumption is to a large extent disregarded in the text, which attempts to cover matters much better dealt with in the existing standard works. To give one example, the discussion on Rule 11, Cases I and II might just as well have been omitted unless the point was made that a Rule 11 claim is rarely, if ever, to the advantage of both the deceased partner's estate and the continuing partners. If the latter wish to make the claim then negotiations usually have to take place with the deceased's partner's personal representatives, who will, if they are wise, ask to be indemnified.

The space allotted to the somewhat brief comments on Back Duty, Land Tax, the Income Tax Act, 1945, and E.P.T. Post-War Refunds (to name but a few) would have been better used in giving a fuller and more practical survey of the administration of estates provisions of the Finance Act 1938, and in discussing some of the following problems of interest to executors and trustees (and their professional advisers). Are charities entitled to exemption from liability on excess rents? Is the income apportionment under the Rule in *In re Atkinson* taxable, and if so under what conditions? If bank interest is charged to capital account when applying the Rule in *Allhusen v. Whittell*, would the decision in *Metropolitan Railway Co. v. C.I.R.* (20 T.C. 102) justify a refusal to repay income tax under Section 36, Income Tax Act, 1918? The reader might reasonably have expected a discussion, if not an answer, on these and other perplexing problems, but the reviewer has not found them.

On p. 50 the surprising statement is made that "trustees will always keep the possible loss of child relief in their minds when advising parents on the question" of maintenance expenditure. One would have thought that there was one overriding consideration

and one only, viz., the benefit of the infant, but maybe the strictures in the House of Lords in *Lady Naas and Another v. Westminster Bank* (56 T.L.R. 381) have fallen on stony ground.

Perhaps the most useful chapters are those dealing respectively with Schedule A and with the application of *In re Pettit*, although here a certain looseness of expression is evident as when Chapter 5 opens with the statement that "Schedule A is payable annually on January 1 of the year of assessment and by the owner of the property as at that date." But the author will doubtless class this reviewer with "the legal purist and the captious critic" (p. 170).—A. F. C.

**Farm Accounting and Management.** By Ford Sturrock, B.Sc. (Sir Isaac Pitman & Sons, Ltd., London. Price 16s. net.)

This is a carefully written treatise, which can give valuable help to a farmer who will persevere in an effort to understand and apply the methods recommended. The early chapters explain the ordinary systems of book-keeping which are all that a normal farmer need maintain. If practising accountants could persuade their clients to follow the precepts in this book, their task of preparing accounts would be much lightened. The simpler methods of book-keeping are followed by an explanation of banking, business methods, an outline of double entry book-keeping, and a chapter on valuations.

It is, however, Part III of the book which will be of most interest to accountants. Farmers usually have accounts prepared in order to agree assessments with the Inland Revenue, and study of the accounts to learn from them the secrets of success or failure is the exception rather than the rule. The nation is vitally concerned in seeing that two ears of corn grow where one grew before, and accountants who wish to take their part in this should study the chapters on detection of weaknesses in farm management.

For instance, the question of profit or loss on livestock transactions is frequently only considered as a result of a query from the Inspector of Taxes. The fact is that farmers are not themselves sufficiently interested in the accounts, or perhaps have not enough knowledge of them to make them so. Most of them already know, by some subtle method of their own, what the accounts will show, and when faced with them will agree they are correct; but it is for accountants to present or explain them so as to bring out causes of inefficiency. Thus they can be of real service to their clients and to the country.

This is closely linked with costing, on which there is a chapter describing the principles and the pitfalls to be avoided. Agricultural colleges are giving farmers valuable help on this subject, but accountants should not leave it all to them.

The book concludes with an appendix on income tax which is concise and gives sufficient detail for the purpose. (There seems to be a small omission in the paragraph on Schedule A where it is correctly stated that an owner occupier pays both Schedule A and Schedule B or D, as the case may be, but not that the net Schedule A is deducted in arriving at the Schedule D assessment.)

The Inland Revenue Form 79 D. is printed and described in full, and as long as the Revenue continue to issue this form (without a balance sheet) this must no doubt be done. The author's opinion of it can be surmised when he remarks that there is no obligation to use it, and that a trading account and balance sheet may be sent to the Inspector instead, euphemistically saying "the final result is the same by either method."

Accountants who have seen the form as usually prepared by farmers will hardly agree!

Altogether a book of great interest.—N. B. H.

**A First Book of English Law.** By O. Hood Phillips, M.A., B.C.L., Barrister-at-Law. (Sweet & Maxwell, Ltd., London. Price 16s. net.)

The author says in his preface that this book is intended as an elementary introduction for those embarking on the study of English law. There is no doubt that it will fulfil a real need. Its lucidity of expression, interesting manner of presentation, and clear division of the subject matter, will commend it to the student.

The work is divided into three parts. The first part covers concisely the organisation of the Courts and gives an excellent account of the administration of justice. The second part, dealing with the sources of English law, is a realistic and convincing account of the evolution of the law. It may be questioned, however, whether some of the authorities cited are not too advanced for an elementary introduction to the subject. Under the heading "Precedents of Interpretation" reference is made to the definition of "trust for sale" in the Law of Property Act, 1925, as judicially interpreted by *Re Leigh's Settled Estate* and *Re Parker's Settled Estate*, but it is suggested that this presupposes some detailed knowledge of property law.

The same criticism applies to the third part dealing briefly with the elements of the modern law. The distinction between "an introduction to" and "an epitome of" such topics as the law of tort, contract and property tends to lose its sharpness.

One can confidently recommend this work as most useful to the student.—J. H.

**Auditing Procedure.** By De Witt C. Eggleston, M.E., C.P.A., LL.B. Third edition (John Wiley and Sons, Inc., New York, and Chapman & Hall, Ltd., 37, Essex Street, London, W.C.2. Price \$5.50 or 33s. net).

This monumental work, consisting of 438 pages, 27 chapters and four appendices, is described on its dust-cover as "a thorough exposition of the best practices used by independent accountants in verifying accounts." This summarises the painstaking work of Mr. Eggleston to a nicety. In his book he describes with an infinity of detail the ideal audit performed by the firm of accountants with a maximum of staff and plenty of time on their hands, for the perfect client who is prepared to co-operate to the full and pay an audit fee commensurate with the work involved. Every likely (and unlikely) fraud is discussed, discovered and corrected. Audit papers are prepared and presented in a form which can only be described as completely comprehensive. Audit programmes are detailed to the nth degree. On inventories alone there are 24 main headings, and the final examination of the clerk in charge as to whether he has done his work adequately consists of 51 searching questions.

This is no criticism, for accountants must always aim at an ideal, even if this is not always practicable. The book provides an admirable exposition of American methods, but their standard practice in auditing seems to reveal a lack of that flexibility which should be the basis of any comprehensive audit. Some of the American terminology is difficult to follow, and the hundred specially prepared forms used to illustrate key points are not improved by being reproduced in an undistinguished handwriting. A number of these provoke the remark, "Too elementary, my dear Eggleston," but



this is probably because the book is written for audit clerks with varying degrees of skill; this is confirmed by the fact that each chapter ends with a series of review questions and that there are 152 general questions in the final appendix.

The book includes an all-too-short chapter on the analytical review of accounts, and a selection of reports, revealing the essential differences between British and American practice. The detailed schedules of reports and working papers of various industries show that much can be learnt from American thoroughness and American emphasis on a detailed recording of the work of each audit clerk in relation to every aspect of the audit.

The author is to be congratulated on the infinite pains which he has taken in detailing ideal audit procedure. All practising accountants can learn from American professional publications. Mr. Eggleston has much to teach, and even if not all is applicable in this country, his comprehensive book should be widely read by accountants in this country.—H.B.S.

**Cost Accounting.** By Charles F. Schlatter, M.S., C.P.A. (John Wiley & Sons, Inc., New York; Chapman & Hall, Ltd., London. Price 36s. net.)

One cannot hold this book lightly as one does the average British publication in these days. This is a professorial tome to be placed on the desk. It is immense value for money by British standards. Apparently it is addressed to students. It has a series of examples and problems in each chapter. It is not, however, a textbook for the examinees of British professional bodies. The language is United States and has to be learnt. The outlook is more practical and advanced than our professional "Finals." It is a book to be read as soon as the "cram" period is over by the man who has to operate accounting for use by management.

The Introduction describes the objective of cost accounting better than most. "The chief objective of every cost system should be to make it possible to control the costs—that is, to assist management in every way possible and to keep the costs down to what they should be." The whole tone of the book is based on the modern trend away from the cost of the products towards the cost of functions of manufacturing for better control of costs. The author takes the underlying principles of budgetary control and cost standards in his stride. "The core of the newer concept is the conviction that industrial enterprises can be better managed if the data furnished to the executives show how much of the total expenditure of the factory results in the production of goods and how much was wasted, with an analysis showing the causes of such wastes." To describe procedures there are flow charts, not new but drawn in the way I can understand them. These give excellent training for thoroughly working out routines before they are thrust on bewildered staff and for recording in office procedure manuals. I think the book is worth studying for these charts alone.

The main body of the book is devoted to principles of costing various types of business from retail shops to complex manufacturing. It is good to see that much attention is given to the valuation of work-in-progress in each type of production. Throughout there is expressed the underlying idea that there are only two methods of costing—process and job—and that job costing is not much use anyway. This is a view which still needs much more active acceptance by the accounting profession.

There is a good chapter on cost reports for management use. It includes the statement that "too often the financial accountant finds it difficult, if not impossible,

to shift his point of view from the balance sheet and the profit and loss statement to the reports necessary for successful plant operation. He *must* make the shift if he is to be of value in cost accounting and cost reporting."

The effect of different levels of manufacturing activity on costs and profits is given a chapter to itself, as it well deserves. From this arises a description of "differential" costing—somewhat similar to our "marginal" costing. The inclusion of interest in costs is considered, but there is no chapter on depreciation. This is a pity since I am sure that the author has a lot to say on this subject. But one cannot expect everything in one book, and this one certainly offers to the man on the job sufficient ideas to repay his reading.—F. S.

## Exchange Control Act, 1947

The attention of liquidators of companies is drawn to the procedure laid down for their protection by the Exchange Control in connection with returns of capital to contributories in the winding-up of a company, or other repayments of a capital nature such as the repayment of debentures. Liquidators complying with the requirements are enabled to despatch cheques or warrants in payment of the return without further permission or reference to the Control.

The procedure applies to every such distribution even where all the security holders are known to be resident in the Scheduled Territories, since the holders may be nominees of persons outside those Territories.

Before making the distribution the liquidator should write to the Exchange Control stating the name of the company, its capital structure, the nature and total amount of the distribution and the date on which it is payable. Names of payees or the individual amounts payable need not be stated. At least two weeks' notice should be given if possible.

The Exchange Control will give particulars to the liquidator of the exact procedure to be adopted, which is similar to that which a registrar, company secretary or paying agent would be required to follow when making a capital repayment otherwise than as provided in the original terms of issue of a security. The present requirements include a request to each security holder whose address registered in the books of the company is within the Scheduled Territories, to complete a declaration that he is resident in the Scheduled Territories (as officially defined from time to time) and that he is not holding the security as nominee of a person resident outside those territories.

In cases where the declaration is signed, cheques or warrants may be sent to addresses within the Scheduled Territories without further reference to the Exchange Control.

In cases where the declaration is unsigned or deleted or amended in any way, or the security holder is registered as of an address outside the Scheduled Territories, the cheque or warrant must be crossed "Payable to a blocked sterling account only." Cheques or warrants for amounts under £5 need not be marked. The liquidator must, before despatch, send a list of all cheques or warrants so crossed to the paying bank, and should include details of warrants for amounts under £5 to be sent to addresses outside the Scheduled Territories. If in doubt, the liquidator may refer any particular case to the Control.

It is unnecessary to fill up sterling transfer forms, and cheques or warrants may be posted without further formality to any address within the Scheduled Territories or to addresses outside the Scheduled Territories if already recorded in the books of the company. The permission of the Bank of England is, however, required for the entry in the company's books of an address which is outside the Scheduled Territories, whether in connection with a change of address or mandate for payment.

Liquidators should write to the Chief Cashier, Bank of England, Securities Control Office, London, E.C.2, giving the particulars mentioned in the third paragraph above. A separate written application should be made in the case of each distribution to enable the Bank to inform the applicant of any changes in current practice.

Liquidators are requested to co-operate with the Exchange Control in following this procedure.

**LAW****Legal Notes****EXECUTORSHIP LAW AND TRUSTS***Will—Deceased under morphia—Uncompleted signature.*

In *Re Chalcraft deceased* (1948, W.N. 145), shortly before her death, the testatrix nodded assent when a codicil dated December 30, 1946, was read over to her. It had been written out by the plaintiff in the presence of the testatrix, who was in bed and had recently been injected with morphia. After indicating assent, the testatrix, Miss Chalcraft, attempted to sign it, but was only able to write "E. Chal." The document was immediately passed to the attesting witnesses, both of whom signed in the presence of the testatrix and of each other. From that time until her death, the testatrix never regained full consciousness. The alleged codicil read: "96 Osborne Road, Acton. I wish my house to be sold and £500 made over to Mr. C. F. West for purchase of 33 Stilecroft Gardens. E. Chal." Willmer, J., said the onus was on the plaintiff to prove (1) that the deceased knew and approved of the contents of the codicil; (2) that the document was intended as a testamentary one, and not merely as a disposition *inter vivos*; (3) that there was a sufficient signature; (4) that it was attested not only in her physical but in her mental presence. He was satisfied on all four points and pronounced in favour of both will and codicil.

*Construction—"All my stocks and shares."*

In *Re Purnchard's Will Trusts* (1948, W.N. 151), Jenkins, J., had to construe the words "all my stocks and shares" used by a testator. His will, made in 1926, provided: "I devise and bequeath all my possessions whatsoever to my wife during her lifetime, and on her death I transfer and give to my brother-in-law my freehold residence and all the contents, and further I devise and bequeath all my stocks and shares to the Royal Sussex County Hospital for their benefit and use." The will was a holograph, and the testator died in 1932. The brother-in-law predeceased the testator, and the wife died in 1945. At his death the testator's estate comprised certain sums of money and Stock Exchange investments, including (a) preference and ordinary stock and shares in trading companies; (b) debenture stock and preference and ordinary shares in electricity companies; (c) preference and ordinary stock in railway companies; (d) mortgage debenture stock in trading companies; (e) British and Dominion Government and municipal stock; (f) foreign government and municipal bonds and loans, and foreign railway bonds, notes and debentures. The summons was to ascertain which of them passed to the hospital as "all my stocks and shares." The next-of-kin contended that all securities other than capital (*i.e.*, ordinary and preference) stock and shares in incorporated companies were excluded from the bequest.

Jenkins, J., said that regard must be had to the assets at the time of death of the testator. It was justifiable to infer that the testator, having given his wife a life interest in all his possessions, intended to make a complete disposition of them after her death, and conceived that he would be doing so by the language used. Therefore the words should receive the widest possible construction. The present case was distinguishable from *Re Everett* (1944, Ch. 176), where a severely limited construction had been placed on a similar bequest. That case did not lay down a general rule for all wills. Here, unlike that case, there was no residuary clause in the will. In his view, having regard to all the circumstances, in everyday language such as the testator used, the

words meant "Stock Exchange investments." He would accordingly declare that the gift operated as a gift of the whole of the investments held by the testator at his death, including investments now held which represented former investments.

*Family provision—Lost will—Time limit.*

In *Re Bidie deceased* (1948, 1 All E.R. 885), a testator made his will in February, 1937, and died in January, 1945. The will was not found soon after death, and in April, 1945, on the assumption of an intestacy, a full grant of administration was made to the widow and one of her sons. Subsequently the will was discovered, the grant of administration was revoked, and on September 7, 1946, a grant of probate was made to the executor named in the will, which made no provision for the widow. In January, 1947, a summons was issued by the widow, claiming that provision should be made for her under the Inheritance (Family Provision) Act, 1938. Jenkins, J., held that, on the construction of Section 2 (1) of the Act, the time began to run for the purposes of that section from April 13, 1945, when letters of administration were granted. The subsequent revocation did not affect the legal position on this matter. The section provides that an order under the Act shall not be made except on an application made within six months from the date on which representation in regard to the testator's estate for general purposes is first taken out. Therefore the widow's claim was barred.

*Executors—disclaimer—Contract for repairs accepted by testator.*

In *Re Rushbrook's Will Trusts* (1948, 1 All E.R. 932), a testator devised to N. a freehold farm, which, after the date of the will but before the testator's death, was damaged by fire. The testator received £400 in respect of his claim under a fire insurance policy, and accepted a builder's estimate of £550 for the repairs. Before the work began the testator died, and his executors repudiated the building contract. Vaisey, J., held that N. was entitled to have expended on the repairs indicated such sum, not exceeding £550, out of the testator's personal estate as was necessary for that purpose. This decision follows earlier authorities which formulated the rule of law that where a testator in his lifetime has entered into a contract for the erection of buildings on land belonging to him, and those buildings are not completed before his death, a devisee of such land is entitled to have the buildings completed at the cost of the testator's personal estate.

**INSOLVENCY***Bankruptcy—Reputed ownership.*

In *Re Fox* (1948, 1 All E.R. 849), a builder was granted licences in August, 1946, to build houses for a local authority, and he began work at once. In March, 1947, he was adjudicated bankrupt. The building contract provided for monthly interim certificates by the architect, to entitle the builder to payment, on presentation, of 90 per cent. of the sum certified due to him. It was to be arrived at by a valuation. If payment included the value of unfixed materials and goods on or adjacent to the works they became the property of the local authority. In the last quarter of 1946 three such certificates were given covering (a) materials provided by the builder which had never been on the site but for convenience were stored by arrangement in the builder's yard; (b) materials provided by the builder



lying loose on the site; and (c) roofing tiles supplied by a sub-contractor lying loose on the site. Materials in (a) and (b) had been bought by the bankrupt under proper licences and were admittedly the builder's property until he received payment, when it passed to the authority. The tiling work was to be carried out under a sub-contract which provided that the materials were to remain the property of the sub-contractors "until fixed in work." The tiles were in the builder's care only as bailee and were never at any time the builder's property. The trustee disclaimed the contract with the local authority and moved for a declaration of the Court that the property in classes (a) (b) and (c) vested in him under Section 38 (2) (c) of the Bankruptcy Act, 1914, on the ground that he was at the material date the reputed owner thereof. The Chancery Division, on an appeal from the County Court, held that, in order to bring Section 38 (2) (c) into operation, it

must be shown not merely that the goods were in the bankrupt's possession but also that he was the reputed owner. Mere proof of possession might in certain circumstances raise a presumption of reputed ownership, only to be rebutted by proof, or judicial notice, of a custom negating this view. The primary question must always be whether the possession of the goods by the bankrupt was such as to create the inference that he was the reputed owner. Applying those principles to the present case, the circumstances of the builder's possession of the materials in category (a) were precisely the same as if the goods had been his own, with nothing to show that they were not, or might not be, his; therefore the builder was in possession of them in such circumstances that he was the reputed owner thereof within the meaning of the Statute. But the materials in categories (b) and (c) were not in his possession in such circumstances.

## Society of Incorporated Accountants

### INCORPORATED ACCOUNTANTS' YEAR BOOK, 1948

Messrs. Ernest T. Kerr & Co., of Birmingham, point out that the entries concerning their firm are incorrect. The only partners are Mr. E. Lord, F.C.A., A.S.A.A., and Mr. C. R. Cooke, A.S.A.A.

### MEMBERSHIP

The following promotions in, and additions to, the membership of the Society have been completed during the period April 17 to June 15, 1948:

#### ASSOCIATES TO FELLOWS

Forster, Stanley Oscar (J. A. Kinnear & Co.), Dublin; Hayes, Stanley Rathbone (Dyke, Ruscoe & Hayes), Ludlow; Knight, Charles Eric, Chief Accountant, South Western Area Electricity Board, Bristol; Langton, Arthur Edward, LL.B., Director of Studies, H. Foulks Lynch & Co., Ltd., London; Mathews, Leslie Alan (J. A. Kinnear & Co.), Dublin; Mee, John William (Nottingham); Smith, Abram Wilkes, Borough Treasurer, Twickenham; Telfer, John, Bursar, King's College, Newcastle-upon-Tyne; Whitnall, Charles Dudley (Charles R. Whitnall & Son), Liverpool.

#### ASSOCIATES

Bolton, Alfred, Deputy Chief Accountant, Directorate of Fertiliser Supplies, Board of Trade, Tunbridge Wells (formerly with Bowman, Grimshaw & Co., Blackpool); Bullen, Henry Meredith, M.A. (Deloitte, Plender, Griffiths, Annan & Co.), Cape Town; Fox, Richard Glanfield (Foot, Fox & Co.), Southampton; Goad, Reginald William, Accountant, A. E. Monsen, Plymouth (formerly with White & Pawley, Plymouth); Holden, George Thomas (Holden & Bamford), Bradford; Jackson, Kenneth Victor, with H. A. F. Brookes, Liverpool; Kelland, John Daniel (Allchurch, Kelland & Co.), Evesham; Nath, Narendra, B.A., with Killick, Nixon & Co., Ltd., Bombay (formerly with S. B. Billimoria & Co., Bombay); Sastri, Durbala Balagan-gadhara, Accountant, Tea Estates India, Ltd., Coimbatore, South India (formerly with Sastri & Shah, Madras); Welham, Norman Lovel (Welham & Davis), Kimberley; Woodgett, Sidney Raven (J. Paterson Brodie & Son), Longton, Staffs.

### DISTRICT SOCIETIES AND BRANCHES

#### LONDON LUNCHEON CLUB

The Earl of Limerick, K.C.B., D.S.O., addressed members of the London Incorporated Accountants' Luncheon Club at the Abercorn Rooms on May 11. The chair was occupied by Mr. C. V. Best, Chairman of the London and District Society, and among the guests at the luncheon were Sir Frederick Alban, C.B.E., J.P., and Mr. J. Paterson Brodie (President and Vice-President of the Society of Incorporated Accountants), who were supported by six past-presidents of the Society.

tants), who were supported by six past-presidents of the Society.

Lord Limerick emphasised in an extremely interesting talk the vital necessity for continued voluntary service in the Auxiliary Forces of the Crown. An article by Lord Limerick on this subject dealing with the facts underlying his remarks is published on page 160.

Sir Frederick Alban thanked Lord Limerick for his exposition of the present difficulties and the responsibility of employers and their advisers in this respect. He also proposed a vote of thanks to Mr. Best for presiding.

At the Connaught Rooms on June 8 Professor W. T. Baxter, B.Com., gave his views on "Education and the Profession." As the holder of the Chair of Accounting in the University of London and a member of the Joint Standing Committee of the universities and the accountancy profession, and also of the London Local Joint Committee dealing with these matters, his views on the scheme whereby a student may obtain both a University Degree and an accountancy qualification were very enlightening and were much appreciated.

Future luncheons in 1948 will be held on the following Tuesdays:

- July 6. At the Abercorn Rooms, E.C.2.  
Followed by the Annual Meeting of the London and District Society.
- Sept. 7. At the Connaught Rooms.  
Speaker: The Rt. Hon. Viscount Bruce of Melbourne.
- Oct. 5. At the Abercorn Rooms.
- Nov. 2. At the Connaught Rooms.
- Dec. 7. At the Abercorn Rooms.

Members of the London and District Society who are not receiving notices of these functions, and would like to do so, are requested to notify the secretary.

### HULL

#### Students' Section

##### ANNUAL REPORT

A complete syllabus of students' meetings was organised. Attendances were even better than last year, averaging 58 students, in addition to a good number of senior members and visitors.

The library is being removed to convenient premises in the centre of Hull.

Four student members passed the Final and three the Intermediate during 1947.

There are now 220 members of the Section. Forty-two were admitted during the year and ten resigned.

#### IRISH BRANCH

The annual meeting of the Society of Incorporated Accountants in Ireland was held in Dublin on June 4.

Mr. Robert Bell, F.S.A.A., President, in moving the adop-

tion of the report and accounts, referred to the regretted death of Mr. J. D. Thompson, of Belfast, a past President of the Branch. Mr. Bell then mentioned recent developments in the training and education of candidates for the profession, which he hoped would result in a greater percentage of successes at the examinations. These were necessarily of a very high standard, in order to maintain the acknowledged standing of the designation "Incorporated Accountant."

Dealing with the difficulties through which the country, in common with others, was passing, the President indicated the valuable help which could be given by accountants to industry, in connection with costs and in other directions, and he expressed the hope that increase in production per man-hour would keep pace with increases in wage levels.

The adoption of the report and accounts was seconded by Mr. Mervyn Bell, Dublin, and passed unanimously.

The retiring members of the Council and the Hon. Auditor, Mr. R. P. J. Smyth, F.S.A.A., were re-elected. A vote of thanks was passed to the President.

At a subsequent Council meeting, the following officers were elected for the year 1948-49: President, Mr. Robert Bell (Belfast); Vice-President, Mr. Mervyn Bell (Dublin); Honorary Treasurer, Mr. R. L. Reid (Dublin); Honorary Secretary, Mr. J. Love, 34, Dame Street, Dublin.

### PERSONAL NOTES

Mr. L. F. Cheney, A.S.A.A., has been appointed Secretary to the Institute of Municipal Treasurers and Accountants (Incorporated), 1, Buckingham Place, Westminster, London, S.W.1, as from July 1, 1948. Mr. Cheney succeeds Mr. Ernest Long, F.S.A.A., consequent upon Mr. Long's appointment as a Deputy Chief Accountant to the British Electricity Authority.

The Council of the American Institute of Accountants has announced that Mr. John L. Carey, previously the Secretary of the Institute, has been appointed Executive Director, and Mr. H. T. Winton, previously Assistant Secretary, has been appointed Administrative Secretary.

Mr. R. Heal, A.S.A.A., has taken into partnership Mr. B. J. Burr, A.S.A.A. They are practising at 16, High Street, Chesham, Bucks., under the style of Heal & Co., Incorporated Accountants.

Messrs. Smallfield, Fitzhugh, Tillett & Co., London, have admitted as partners Mr. E. D. Q. D'Alton, A.S.A.A., and Mr. D. G. Roberts, A.S.A.A.

Mr. W. C. M. Hughes, Incorporated Accountant, has commenced public practice at 86, The Highway, Hawarden, Chester.

Mr. W. Heenan, A.S.A.A., has been admitted to partnership in Messrs. James Baird & Co., Incorporated Accountants, Belfast.

Messrs. Herbert Pepper & Rudland, Chartered Accountants, Walsall, announce that Mr. Sydney Lawrence, F.C.A., A.S.A.A., has retired, but is still available in an advisory and consultative capacity.

Mr. W. J. Harrold, A.S.A.A., has commenced public practice at 14, Goose Gate, Nottingham.

Mr. Albert C. Grover, F.S.A.A., advises that after the death of his son, Mr. Stanley A. Grover, A.C.A., he has retired from public practice. The practice of Messrs. Grover and Son, Banstead, has been acquired by Messrs. Lord, Foster and Co., Chartered Accountants, 38, King William Street, London, E.C.4.

### EXAMINATIONS

The Preliminary, Intermediate and Final Examinations will be held on October 26, 27 and 28, 1948, at London, Manchester, Leeds, Cardiff, Glasgow, Dublin and Belfast.

Applications on the appropriate form, accompanied by all relevant supporting documents and the fee, must reach the Secretary at Incorporated Accountants' Hall not later than Wednesday, August 25, 1948.

The Society does not undertake to arrange hotel accommodation. Candidates must make their own arrangements in this respect.

### OBITUARY

#### THOMAS WILLIAM SCOLICK

It is with regret that we announce the death on May 15 of Mr. Thomas William Scollick, F.S.A.A., the senior member of the Society in Newcastle-upon-Tyne. Mr. Scollick became an Associate in 1901, and a Fellow in 1910. Shortly after qualifying, he entered into partnership with the late Mr. M. D. Forster, F.S.A.A., founding the firm of Forster, Scollick & Co., and he continued to practise until his death.

He took an active interest in the Newcastle-upon-Tyne District Society, being a member of the Committee for many years, and President from 1939 to 1944.

Mr. Scollick was prominent in Masonry, being a Past Master of the Northbourne Lodge, a Past Provincial Grand Warden of the Province of Durham, and Past Grand Standard Bearer of the United Grand Lodge of England.

#### WILLIAM CHARLES WEATHERBY

We regret to announce the death on May 2, at 89 years of age, of Mr. W. C. Weatherby, F.S.A.A., who was admitted a member of the Society in the year 1900.

For over forty years he was the Chief Accountant of the Phoenix Insurance Company. During his active career and in his retirement, Mr. Weatherby took a personal interest in the Society's affairs and in the Incorporated Accountants' Benevolent Fund, to which he was a long-standing contributor.

### INCORPORATED ACCOUNTANTS' BENEVOLENT FUND

The annual meeting of subscribers and donors to the Incorporated Accountants' Benevolent Fund was held on May 26 at the Hall of the Chartered Auctioneers' and Estate Agents' Institute.

Sir Thomas Keens, D.L., President of the Fund, occupied the chair. In moving the adoption of the report and accounts for the year 1947, Sir Thomas said:

As always, my first thought is to express the warm thanks of the trustees to those members who have kindly and continuously supported the Fund. I am happy to feel that that support comes from members at home and in all parts of the world. The report refers to special contributions made during the past year. I particularly refer to the generous and continuous support given by the Society's South African Committees. During my visit to South Africa at the end of 1947 I had the privilege of expressing my thanks and yours to our South African friends for the generosity which has

moved them continuously to support this Fund. Indeed, the Committee in Johannesburg were kind enough to make a special donation of twenty-five guineas at the time I was meeting the members. The Benevolent Fund is indeed a comprehensive activity which elicits the co-operation and goodwill of all Incorporated Accountants. During recent months the trustees have received further special contributions, including one from the senior member of the Society in South Africa. I should also like to acknowledge the substantial subscription which for many years the Incorporated Accountants' Lodge of Freemasons has made to the Fund.

The income for 1947 shows a slight increase over that for 1946. But I think you will agree that there is room for a more extended degree of interest in the Fund among members of the Society. The trustees, therefore, are grateful to those members in the Branches and District Societies who have



consented to act as the Local Secretaries. They will be good enough to develop interest in the respective areas and will co-operate with head office. Each of them will shortly be furnished with information of contributions already made in 1948: this will enable them to make a personal appeal for new contributions.

The trustees, for whose careful administration of the Fund we are most grateful, endeavour to make grants on as liberal a scale as possible: but it is vital to add something to the accumulated fund each year to provide income from investments. This is the more necessary having regard to the low rate of interest which is now earned. The effectiveness and helpfulness of the grants are a source of satisfaction to the trustees, and indeed the money is well spent and affords comfort and a measure of security to those whom the Fund helps.

Public attention has been drawn to the urgent need of providing homes for the aged. During the last six months, the Nuffield organisation, which has made a special study of the question, invited representatives of benevolent funds to consider whether some voluntary effort should be made to establish on a co-operative and voluntary basis homes for the aged. I understand that a *prima-facie* case has been established and a committee is now preparing a specific scheme based on information given in earlier memoranda.

I am aware that under recent legislation a duty is thrown upon local authorities to provide homes for the aged. But the Nuffield organisation considers that in addition there is a field for voluntary effort. The trustees of this Fund have both aspects in mind.

Meantime they have expressed themselves tentatively as being favourable to the consideration of such a scheme as proposed by the Nuffield organisation. The trustees must have regard to the powers of the Fund, and they are advised that some alteration of the rules is necessary to enable them,

if they so decide, to support the scheme by way of an investment in the nature of loan stock carrying a small rate of interest, or on mortgage. If the scheme materialises and the trustees favour financial support, they will invite you to approve such alterations in the rules as may be necessary. Any such investment will carry with it the right of the Fund to make nominations of aged members or widows for admission.

The adoption of the report and accounts was seconded by Mr. Percy Toothill, Chairman of the Trustees, and carried unanimously.

Mr. J. E. Spoors proposed and Mr. A. V. Hussey seconded the re-election of the Trustees: the motion was carried unanimously.

On the motion of Mr. Bertram Nelson, seconded by Mr. Stanley Wallis, the re-election of the Vice-Presidents was carried.

Mr. R. Wilson Bartlett referred to the great interest which Sir Frederick Alban took in the affairs of the Fund and proposed that Sir Frederick be elected a Vice-President. Mr. Percy Toothill had much pleasure in seconding the proposal, which was carried by acclamation. The Vice-Presidents are: Mr. C. Hewetson Nelson, Mr. Henry J. Burgess, Mr. E. L. Burton, Sir Harry Hands, Mr. Alexander Hannah, Mr. William Strachan, Mr. W. McIntosh Whyte, Mr. Arthur Collins, Mr. W. Southwood Smith, Sir Frederick Alban, Mr. A. A. Garrett.

Mr. H. W. Cater proposed and Mr. T. W. Dresser seconded the re-election of Mr. Arthur Henry Hughes as Hon. Auditor, with a vote of thanks for his services. The motion was carried.

Mr. Robert Bell proposed a cordial vote of thanks to the President, Sir Thomas Keens, for presiding, and for his continued interest in the Fund. Mr. Bell put the motion to the meeting and it was adopted by acclamation.

### Fifty-Fifth Annual Report of the Trustees

The Trustees have pleasure in presenting the Report and Accounts for the year ended December 31, 1947.

The revenue of the Fund at £2,629 shows an increase over the amount for 1946, which was £2,538. In accordance with Rule 17, life subscriptions and donations, amounting to £965, have been added to the capital of the Fund. This is somewhat less than the amount so treated in 1946, when £1,041 was received from such sources.

Grants aggregating £2,082 were distributed to 35 beneficiaries during the year. It is again notable that in a considerable number of cases assistance rendered was directed towards the education and maintenance of children of deceased members. In these cases grants are likely to be necessary for several years.

The Trustees express their gratitude to contributors both at home and overseas and to the Committees in South Africa for their continued support of the Fund. In particular the Trustees gratefully acknowledge the following legacy and donations:

- (a) Legacy of £20 from a former subscriber;
- (b) Donation of £50 from a subscriber to commemorate the 50th anniversary of his election to membership of the Society;
- (c) Donation of 50 guineas from an anonymous subscriber;
- (d) Donations of 25 and 20 guineas from the South African Northern and Western Branches respectively.

In accordance with a resolution adopted at the Annual General Meeting in May, 1947, the Trustees have appointed representatives in most Branches and District Societies to

assist in stimulating the interest of members in the Fund. The co-operation of these representatives is warmly welcomed.

Mr. Arthur Henry Hughes, Incorporated Accountant, London, is the retiring Hon. Auditor and offers himself for re-election.

The expenses of the Fund are limited to printing and postages. In view of high printing costs, the Trustees have decided with regret that the pre-war practice of annexing to this report a list of contributors to the Fund cannot be resumed at present. The list has been prepared, however, and a limited number of copies will be sent to each Branch and District Society for the information of members.

#### PARTICULARS OF GRANTS FOR 12 MONTHS, JANUARY 1 TO DECEMBER 31, 1947

	Number of Cases	Total Grants £	Amounts previously given in cases where grants were renewed £
(a) Education and Support of Children ...	14	940	3,732
(b) Members or Former Members Suffering from Infirmary or in Straited Circumstances ...	5	263	721
(c) Widows and Dependents of Deceased Members ...	16	879	4,226
	35	2,082	8,679

## REVENUE ACCOUNT

For the year ended December 31, 1947

£		£	£		£
40	Printing, Postages and Cheques ... ..	59	1,327	Subscriptions ... ..	1,428
2,076	Grants ... ..	2,082	371	Refund of Tax on Covenanted Subscriptions	313
422	Balance, being surplus for year carried to			Dividends on Investments (including Tax	
	Balance Sheet ... ..	488	840	recovered), and Bank Interest ... ..	888
<u>£2,538</u>		<u>£2,629</u>	<u>£2,538</u>		<u>£2,629</u>

## BALANCE SHEET

December 31, 1947

£	LIABILITIES	£	£	£	ASSETS	£	£
19,825	CAPITAL ACCOUNT— Balance at December 31, 1946	21,338		186	CASH AT BANK and in hands of Overseas Agents ... ..		449
231	Add— Life Subscriptions ... ..	189			INVESTMENTS AT COST—		
810	Donations ... ..	776			£10,000 3½ per cent. Conversion Stock ... ..	9,219	
50	Legacy ... ..	20			£1,000 4 per cent. Funding Loan, 1960-90 ... ..	804	
20,916		22,323			£2,200 4 per cent. Consolidated Stock ... ..	2,085	
422	Add— Balance from Revenue Account 1947 ... ..	488			£2,000 2½ per cent. Treasury Stock 1975 ... ..	1,899	
21,338	SIR JAMES MARTIN MEMORIAL FUND	22,811			£2,000 3 per cent. Defence Bonds £500 2½ per cent. Defence Bonds	2,000	
3,547	EDITH SENDELL FUND ... ..	3,547			£1,000 3 per cent. Savings Bonds 1960-70 ... ..	1,000	
500	SUNDRY CREDITORS ... ..	500			£1,000 London County 3 per cent. Consolidated Stock, 1920	927	
25		40			£500 London County 3 per cent. Consolidated Stock, 1956-61	490	
					£1,000 Metropolitan Water 'B' 3 per cent. Stock ... ..	910	
					£204 0s. 10d. Commonwealth of Australia 3½ per cent. Regis- tered Stock, 1950-52... ..	185	
					£208 10s. 0d. New Zealand 4½ per cent. Stock, 1948-58 ... ..	201	
					£300 London and North Eastern Railway 4 per cent. 1st Prefer- ence Stock ... ..	247	
					£75 Society of Incorporated Ac- countants 5 per cent. Deben- tures (Gifts) ... ..	75	
					Post Office Savings Bank De- posit ... ..	1,507	
				20,442			22,049
					SIR JAMES MARTIN MEMORIAL FUND—		
					£1,000 2½ per cent. Treasury Stock 1975 ... ..	966	
					£1,000 2½ per cent. Guaranteed Stock ... ..	862	
					£1,500 2½ per cent. Consolidated Stock ... ..	1,266	
					£545 16s. 4d. 2½ per cent. Annuities ... ..	453	
				3,547			3,547
					EDITH SENDELL FUND—		
					£432 0s. 9d. 4 per cent. Con- solidated Stock ... ..		500
					(Market Value of all Securities at December 31, 1947, £27,747)		
					COMMISSIONERS OF INLAND REVENUE for Refund of Income Tax ... ..		353
<u>£25,410</u>		<u>£26,898</u>	<u>£25,410</u>				<u>£26,898</u>

PERCY TOOTHILL,  
Chairman of Trustees.

I have examined the above Accounts together with the Books and Vouchers and find the same to be correctly stated.  
I have also verified the Securities of the Fund.

April 16, 1948.

ARTHUR H. HUGHES,  
Incorporated Accountant,  
Hon. Auditor.